OECD

Development Co-operation Review Series

Japan

Development Assistance Committee

DAC

1999
No. 34

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Development Co-operation
Reviews Series

Japan

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Development Assistance Committee

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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The Members of the Development Assistance Committee are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the United States and the Commission of the European Communities.

Publié en français sous le titre :
EXAMENS EN MATIÈRE DE COOPÉRATION POUR LE DÉVELOPPEMENT
JAPON

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THE DEVELOPMENT ASSISTANCE COMMITTEE

Development Co-operation Review Series

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FOREWORD

The Development Assistance Committee (DAC) conducts periodic reviews to improve the individual and collective development co-operation efforts of DAC Members. The policies and efforts of individual Members are critically examined approximately once every three years. Some six programmes are examined annually.

The Peer Review is prepared by a team, consisting of representatives of the Secretariat working with officials from two DAC Members who are designated as examiners. The country under review provides a memorandum setting out the main developments in its policies and programmes. Then the Secretariat and the examiners visit the capital to interview officials, parliamentarians, and NGO representatives of the donor country to obtain a first-hand insight into current issues surrounding the development co-operation efforts of the Member concerned. Brief field visits investigate how Members have absorbed the major DAC policies, principles and concerns, and examine operations in recipient countries, particularly with regard to sustainability, gender equality and other aspects of participatory development, and local aid co-ordination.

Putting all this information and analysis together, the Secretariat prepares a draft report on the Member's development co-operation which is the basis for the DAC review meeting. At this meeting senior officials from the Member under review discuss a series of questions posed in a brief document: "Main Issues for the Review". These questions are formulated by the Secretariat in association with the examiners. The main discussion points and operational policy recommendations emerging from the review meeting are set out in the Summary and Conclusions section of the publication.

This publication contains the Summary and Conclusions as agreed by the Committee following its review on 13 April 1999 in Paris, and the Report prepared by the Secretariat in association with the examiners, representing France and the United Kingdom, on the development co-operation policies and efforts of Japan. The report is published on the authority of the Secretary-General of the OECD.

Jean-Claude Faure
DAC Chairman

LIST OF ACRONYMS

AAF	Asia-Africa Forum
AfDF	African Development Fund
APEC	Asia Pacific Economic Co-operation
APIC	Association for the Promotion of International Co-operation
AsDB	Asian Development Bank
ASEAN	Association of South East Asian Nations
CIDA	Canadian International Development Agency
DAC	Development Assistance Committee
EC	European Community
FAO	Food and Agriculture Organization
FDI	Foreign direct investment
GGP	Grant Assistance for Grassroots Projects
GNP	Gross national product
GSP	Generalised System of Preferences
HIPCs	Heavily indebted poor countries
HLM	[DAC] High Level Meeting
IBRD	International Bank for Reconstruction and Development
ICB	International competitive bidding
IDA	International Development Association
IDB	International development banks
IDS	International development strategy
IFIs	International financial institutions
IMF	International Monetary Fund
IRRI	International Rice Research Insitute
JANIC	Japanese NGO Centre for International Co-operation
JEXIM	Export-Import Bank of Japan
JICA	Japan International Co-operation Agency
JKUAT	Jomo Kenyatta University of Agriculture and Technology
JOCV	Japan Overseas Co-operation Volunteers

LLDCs	Least developed countries
MOF	Ministry of Finance
MOFA	Ministry of Foreign Affairs
NGOs	Non-governmental organisations
NPO	Non-Profit Organisation
OAU	Organisation of African Unity
ODA	Official development assistance
OECF	Overseas Economic Co-operation Fund
POSIVA	Postal Savings for International Voluntary Aid
SAF	Special Assistance Facility
SIPs	Sector investment programmes
SMEs	Small- and medium-sized enterprises
TICAD	Tokyo International Conference on African Development
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNHCR	United Nations High Commission for Refugees
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization
WARDA	West African Rice Development Association
WFP	World Food Programme
WHO	World Health Organization
WID	Women in development
WTO	World Trade Organization

Exchange rates (JPY per USD) were:

1994	**1995**	**1996**	**1997**
0.1022	0.0941	0.1088	0.121

Signs used:

()	Secretariat estimate in whole or part
-	Nil
0.0	Negligible
. .	Not available
...	Not available separately but included in total
n.a.	Not applicable
P	Provisional

Slight discrepancies in totals are due to rounding

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SUMMARY AND CONCLUSIONS

Overview

A number of fundamental changes in policy directions and organisation are currently underway in Japan's development co-operation:

- After continuous expansion through a series of five-year plans starting in 1978, which made Japan the world's largest donor, the aid budget was cut by 10 per cent in the context of an overall fiscal reform announced in 1997. This cut has now been offset by subsequent provisions of new aid, and the further cuts which had been announced have been frozen. A new tied aid loan facility to help Asian countries affected by financial crisis may boost aid volume in the next few years. Nevertheless, the previous expectations of trend growth in the volume of Japan's aid have been replaced by uncertainty, and the difficult medium-term fiscal outlook is not promising for aid levels in the future.

- Japan has announced a new approach to aid management, based on transparency and efficiency. This will involve the publication of a new medium-term aid policy, expected for the middle of 1999, and the adoption and publication of country assistance strategies, implying a major increase in co-ordination in the Japanese aid system. The new approach reflects both the general administrative reform now being implemented in Japan, and the strong attachment of Japan to the new International Development Strategy (IDS) founded on partnership with developing countries receiving aid.

- The Asian crisis, to which Japan has responded with major financial resources, is reinforcing a rethinking of the development model underlying the emphasis on economic infrastructure in Japanese aid. A broader concern with social development, poverty and institutional and governance issues is emerging in policy dialogue and aid programming.

- The two main implementing agencies of Japanese aid are about to undergo significant organisational change. The agency for technical co-operation, Japan International Co-operation Agency (JICA), will be re-organised on a geographical basis rather than its present instrument-based structure. This will facilitate the implementation of the country strategy approach. The agency for providing aid loans, the Overseas Economic Co-operation Fund (OECF), is to be merged with the Export-Import Bank of Japan (JEXIM). This move raises important questions of aid management in the new dual-function organisation.

Japan remained the leading bilateral donor in 1997 with net official development assistance (ODA) disbursements of USD 9.36 billion. However, its ODA share as a per cent of gross national product (GNP) remained at 0.22 per cent for 1997, which placed Japan at 19th amongst 21 Development Assistance Committee (DAC) donors.

ODA Charter and Japan's philosophy on aid

For Japan, ODA is an integral part of the nation's foreign policy, and is essentially based on economic and diplomatic foundations. To address the many people who are still suffering from poverty in the developing countries, as stated in its ODA Charter (see Annex I), Japan supports the "self-help efforts" of the developing countries to enable their "economic take-off". The philosophy of Japan's ODA is largely based on the country's own experience. To rebuild its economy after World War II, Japan obtained loans from the World Bank to develop its core infrastructure and industry, which it punctually repaid. However, at that stage, Japan already had a capacity to use external aid effectively, with a highly literate population, a burgeoning private sector, and a solid national planning system with an effective revenue collection capacity. Unfortunately, these assets are often lacking in today's developing countries, and thus the parallels with Japan's own development after World War II do not apply well in many cases.

Japan considers that developing countries themselves are ultimately responsible for and should take the initiative in their own development. This position is partially attributable to the fact that: Japan strived to develop from the Meiji era by hiring Western advisors while maintaining the ownership over its development; and Japan invaded several Asian countries during this century, an issue which still arises in its diplomatic relations. This sensitiveness towards non-intervention in the domestic affairs of recipient countries largely explains Japan's cautious stance towards conditionality and policy dialogue in its aid programme (see China report – Annex II).

Japanese thinking has evolved recently, endorsing the ideas that "human-centred development" and the enhancement of individual's welfare should be the key concepts in Japan's ODA, and that economic growth is only a means to achieve them. There has also been a shift from a formal "request basis" stance to a more pro-active approach in proposing projects in areas such as environment, human rights, capacity building, and good governance.

Administrative reform and OECF/JEXIM merger

Japan is going through major changes in its ODA programme. The overall administrative reform, reducing 22 Japanese ministries to 12 and cutting by 20 per cent the number of civil servants, is expected to be carried out by the year 2000. As part of this reform, the current multi-agency ODA administrative system will be consolidated, and the Ministry of Foreign Affairs (MOFA) will be accorded the *de jure* co-ordinating authority for ODA activities. Japan has hitherto had many actors in its ODA administration, with four main ministries and about 17 other ministries and agencies (see Chart 1). As MOFA assumes a stronger co-ordinating role within the development co-operation system, its capacity will need to be strengthened, particularly in staffing. The Economic Co-operation Bureau is currently staffed primarily by foreign service officers and secondments from other ministries who rotate rather rapidly within MOFA or back to their ministries of origin. These are supplemented by non-career technical and administrative staff, with diplomats and specialists posted in embassies who co-ordinate the country programmes. Japan's programme is thinly-staffed relative to other DAC Members, and more stability and continuity needs to be attained. Equally important would be to determine how additional responsibilities could be delegated to implementing agencies, such as JICA and OECF, in order to enable MOFA to concentrate more on strategic issues and co-ordination.

As part of the administrative reform, the merger of OECF and JEXIM is proceeding with a target date of October 1999. Plans call for ODA and non-ODA activities to have separate accounts, with the ODA contributions to be transparent. After the merger, however, technical staff will be shared, which raises questions as to how the integrity of ODA will be preserved.

IDS and country strategy approach

Japan assumed a leading role in formulating the International Development Strategy embodied in the 1996 DAC Report, *Shaping the 21st Century: The Contribution of Development Co-operation*. Japan has subsequently selected seven pilot countries for implementing the strategy in its bilateral programme (see Ghana report – Annex III). The Japanese Government has now decided to prepare and make public a medium-term aid policy statement and country-by-country strategies, initially for 11 major recipient countries. Country strategy planning will improve coherence and support for the IDS and provide a framework for improving the co-ordination of all elements of Japan's aid system. It will also be reflected in the new organisation of the ODA administration, with JICA in particular to be re-organised on a regional basis, rather than in terms of its various instruments of technical co-operation.

In field implementation, however, one of the difficulties in effective co-ordination with recipient counterparts and other donors is the shortage of staff. JICA carries out technical co-operation with about 1 200 staff, of which about 330 are posted in 55 overseas offices, covering 151 countries. OECF, which handles ODA loans, operates with an extremely low staff establishment, as there are a total of 339 staff members. In FY1997, of these, 54 staff were posted in 13 developing country offices and three developed country offices, administering commitments amounting to Japanese yen (JPY) 1.0 trillion (about USD 8.3 billion) and disbursements totalling JPY 650 billion (about USD 5.4 billion) for 21 countries. The ability to make quick and appropriate decisions in co-ordinating programmes at the field level should be enhanced by expanding delegation of responsibilities. In light of the partnership strategy, an increased field presence and more delegation of responsibility would help maximise collaboration with other development partners (see China report – Annex II and Ghana report – Annex III).

Improvement in quality, transparency, and efficiency

An ODA Reform Council for the 21st Century produced a report in January 1998 to provide guidelines on how to shift the focus of the ODA programme from quantity to quality (see Annex IV). The report stresses the need for heightened public understanding of and participation in the ODA process and calls for more effective strategies. Concerning the priority sectors of ODA, it recommends: an emphasis on efforts in poverty alleviation and social development with a focus on human-centred development; an accent on basic education and primary health care; new directions in infrastructure development, using ODA only for projects that cannot be funded privately, more bundling with technical assistance, and teaming up with multilateral institutions; emphasis on environmental issues; support for women in development; stronger emphasis on human resources development; formation of global partnerships; an increase in cross-border regional co-operation; assistance in conflict prevention and post-war conflict development; technical co-operation in legal and financial systems; and enhancement of the private-sector role.

For the modalities of ODA, the report recommends: increased public participation, particularly non-governmental organisations (NGOs) and recipient country stakeholders; disclosure of information; enhanced development; and fostering of international aid experts to place in multilateral institutions. As for the implementation, it recommends: increased collaboration of agencies; increased delegation of authority to the field; improved evaluation by including other donors, examination of environmental and social impact, and disclosure of more information; enhanced collaboration with private sector and multilateral institutions; and increased policy dialogue with recipient countries. The government plans to take action on these recommendations.

Another significant development in Japanese ODA is the push to improve transparency and efficiency by concerned ministries and agencies. A memorandum issued in November 1998 (see Annex V) recommended the following: publishing the ODA mid-term policy, the five-year country assistance programmes, the list of potential loan projects, project evaluations, and procurement details; and improvement in monitoring and evaluation. To enhance efficiency, it recommended: better planning by focusing on priority areas; continuous re-evaluation of self-help efforts and good governance; timeliness and flexibility in dealing with specific situations; and improvements in project preparation, evaluation, and monitoring. As for administration, it recommended better co-ordination among different ministries, the private sector, and other donors; reduction of overlaps in project preparation; better utilisation of NGOs; and enhancement of field offices.

Asian crisis and The Second Tokyo International Conference on African Development (TICAD II)

Recognising the serious situation affecting many Asian countries, Japan progressively mounted a major response. Starting July 1997, its initial response to address the crisis reached some USD 44 billion. This package included: contributions to the International Monetary Fund (IMF) and the Association of South East Asian Nations (ASEAN); assistance for financial sector reforms; Japan's own assistance for private sector activities; facilitation of trade financing and insurance; assistance to the socially vulnerable; human resources development; and measures for foreign students in Japan. Of this amount, about 5 per cent or USD 2.2 billion was in the form of ODA.

After October 1998, Japan launched other initiatives as follows: a) "New Initiative to Overcome the Asian Currency Crisis" (New Miyazawa Initiative) totalling USD 30 billion. b) The Asian Currency Crisis Support Facility in the ADB under the New Miyazawa Initiative (approximately USD 3 billion) to help Asian countries facing economic difficulties with interest subsidies and provision of guarantees. This Facility can be utilised under the "Asian Growth and Recovery Initiative" announced by Japan and the United States at the Asia Pacific Economic Co-operation (APEC) Economic Leaders Meeting in November 1998. c) A Special Yen Loan Facility of maximum JPY 600 billion (approximately USD 5 billion) over three-year period, which will be used for infrastructure development to stimulate the borrower's economies, generate employment, and carry out economic structural reforms of the Asian countries. The package qualifies entirely as ODA, and the funds will be tied to Japanese companies, while remaining in conformity with OECD rules on tied aid credits. d) New measures such as local training of 10 000 people who are assuming a central role in various industries (approximately USD 20 million).

As the crisis moves towards a recovery phase in some countries, three aspects should be highlighted. First, Japan has moved swiftly, devoting considerable financial resources of about USD 80 billion to address the crisis. Second, the role of ODA in the response, amounting to about USD 10 billion, is a key element in helping the countries move from crisis to recovery. Third, it will be necessary to deepen the analysis of the crisis to understand exactly what happened, what has been done by the various actors, the sustainability of "economic take-off" and "self-help efforts", and to assure that root causes of the crisis are addressed.

Japan hosted TICAD II in October 1998, which adopted the Tokyo Agenda for Action (see Annex VI), a guide for policy implementation by African countries and donors as they enter the 21st century. The agreed goals and priority actions were: a) social development: education, health and population, measures to assist the poor; b) economic development: private sector development, industrial development, agricultural development, external debt management; and c) foundations for development: good governance, conflict prevention and post-conflict development.

NGOs and the public

Support for NGO activities is less than 3 per cent of the Japanese ODA programme. There is therefore room to foster more collaboration by NGOs in enhancing effectiveness, particularly to compensate the shortage of official ODA staff in the field. Japanese NGOs are still underfunded, understaffed, underskilled, and relatively young (see Box 1). In Japan, corporate and individual contributions to NGOs are not widespread. Therefore, if NGOs are to assume an effective partnership role in the Japanese ODA programme, they need to be liberated from the double bind of limited government support and insufficient private contributions. Increasing the budgetary allocation for this component should be reconsidered.

Japan's public information on ODA continues to be one of the most wide-ranging of DAC Member countries. On the other hand, some ODA related information such as country studies, project documents, project evaluation reports, and others are not available to the public. Making such information available would enhance transparency and could foster better understanding and support for the programme. In parallel with efforts to be more effective and results-oriented, it is important to promote public education that highlights the relevance of objective improvements in human-centred development, as opposed to emphasizing inputs such as facilities built, supplies and equipment provided, and numbers of people trained, or how much appreciation was expressed by the recipients.

Social sectors: health, education, environment, water, and sanitation

The health sector in 1996-97 took up 3 per cent of Japan's bilateral commitments (see Table VII-5), mainly concentrated in tertiary and curative health, such as support for hospitals and high technology equipment, medical research institutions, high level training, and posting of Japanese advisors. Further breakdown shows that the contribution to basic health was 1 per cent. Recently, Japan has begun to recognise: the importance of primary health care; a need to shift from expensive tertiary forms of care to primary services; a need for sustainable systems; use of locally available human and financial resources; appropriate infrastructure and technologies that are suitable to local conditions at affordable costs; and closer collaboration with NGOs. These ideas should be mainstreamed in Japan's programme and translated into effective implementation. Furthermore, an outcome-oriented assistance, rather than an input-oriented focus, would improve the quality of Japan's support towards this sector (see Ghana report – Annex III).

In 1996-97, 6 per cent of bilateral ODA was allocated to education. Further breakdown suggests that only 1 per cent of Japan's bilateral ODA was committed to basic education (see Table VII-5). The majority of support went to higher education such as universities, research institutions, and vocational training, particularly in engineering and high technology. In general, the Japanese programme has yet to establish a system to conduct analyses on the impediments to schooling and on the ability of communities to maintain schools, monitor enrolment rates, or carry out dialogue with the recipients to ensure increased girls' enrolment, as targeted in the IDS.

In recent years, Japan has placed high priority on the environmental front and has allocated large amounts of resources. However, Japan could make a stronger contribution to environmental analysis and policy dialogue. Assistance towards water supply and sanitation has taken up half the share of social sector allocation, partially due to construction of large urban water supply and sewerage facilities and support for research institutions. Targeting poor areas where the shortage of water is more acute will be increasingly in line with the alleviation of poverty. A more active approach in policy dialogue with recipient countries regarding user fees and cost recovery for urban and industrial use could contribute in shifting resources to ensure better access to water by the rural poor.

Cross cutting issues: poverty, gender, and governance

The ODA Charter states that "many people are still suffering from famine and poverty in developing countries". However, neither the Charter nor any other official document clearly defines poverty, poverty reduction, or who the poor are; nor do they elaborate on the options of targeting poverty directly versus a "trickle-down" through support to economic infrastructure. Japan also needs to define "basic human needs" projects -- whether higher education, tertiary health, and urban water supply and sewerage projects technically qualify, as opposed to basic education, primary health, and rural water supply and sanitation projects. Overall, the monitoring and evaluation of poverty alleviation efforts are still weak in the Japanese aid programme. It is hoped that, the new monitoring system to be established in the seven target countries for implementing the IDS will eventually be mainstreamed throughout the entire Japanese ODA system.

Attention to women in development (WID)/gender equality in the Japanese aid system mainly consists of having a small number of women-focused projects. Although the gender focus is slowly being mainstreamed, Japan's weakness in gender analytical capacity/skills mix is a key issue. Gender specialists are insufficient in relation to the challenging goals in the WID Initiative agreed to by Japan. Gender sensitivity still largely depends on individual interest of staff and departments. An overall strategic gender plan, openly supported by top management and accompanied by clear incentives and training would ensure that the results of gender analysis are integrated into major projects. Changes in evaluation methods towards result-oriented impact analysis would also contribute in this respect (see Ghana report – Annex III).

Japan has made few interventions in governance. The reasons could be attributed to: Japan's request-based approach; an emphasis on recipient countries' own self-help; and a cautious attitude towards intervening in internal affairs. Most of Japan's assistance in this area has been indirect through training and institution building. However, the TICAD II Conference incorporated democracy and good governance as basic foundations for development in the Tokyo Agenda for Action. Japan has also worked within the OECD on the Financial Action Task Force against money laundering and has ratified the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. Within DAC, Japan joined in a Recommendation to place anti-corruption measures in ODA procurement. Japan's contributions to these issues both within the ODA programme and in other coherent efforts should continue. The influence that these issues have on the path of development in recipient countries is often decisive, and thus cannot be ignored.

Evaluation and effectiveness

Evaluation has been part of Japan's ODA for many years and is conducted at several tiers. MOFA conducts around 150 evaluations annually, and both JICA and OECF have their own programmes as well. Their findings are compiled and released in separate reports by each organisation. A serious weakness of these evaluations is that there is minimal reference to data on socio-economic impact of projects, and instead, an emphasis on the physical conditions of constructed facilities and on how much beneficiaries have appreciated the projects. Attempts to link the cause and effect of how the projects have actually improved the lives of targeted beneficiaries are notably absent. On project monitoring, JICA has a relatively strong approach to portfolio management at field level. OECF has made systematic efforts to use evaluations as a learning tool at management and technical staff levels, as well as in the field, identifying the appraisal phase of the project cycle and institutional weakness as the two most important sources of project success or failure.

Japan needs to do more to bring its aid portfolio into harmony with the overall goals of the IDS. The adoption of a country strategy approach is a major step in this effort. Based on country assistance

strategies, this would imply, for example, increasing support for public health clinics instead of urban hospitals that are costly and not as relevant in a poverty-oriented strategy or a broad-based primary health care programme; more support towards primary education rather than universities which are also costly and of little relevance to the poor; and the avoidance of the provision of high technology equipment, infrastructure or services that cannot be sustained. Building on country studies, the quality of evaluations needs to be bolstered by paying more attention to relevance, appropriateness, sustainability, cost effectiveness and socio-economic impact. Increased participation from other donors may be a way to improve methods of evaluation and to incorporate wider views concerning effectiveness. As Japan "desires to occupy an honourable place in international society", effectiveness in reaching the "many people (who) are suffering from famine and poverty", as it sets out to do, is ultimately the surest way it could fulfil this through its ODA programme.

Policy coherence, untying, and debt relief

With the prolonged economic recession in Japan and the deep economic set-back in East Asia, the coherence between Japan's aid, investment, and market access policies becomes even more important. When Japan, or other OECD countries, restrict access to their markets in areas where low-income countries have a comparative advantage, the possibilities for export-led growth and integration into the global economy for developing countries are constrained.

Japan began untying ODA loans in the late 1970s, and they are now virtually all untied. However, in the context of the Asian crisis and Japan's recession, the Special Yen Loans of JPY 600 billion (an estimated USD 5 billion) will be tied, while remaining in accordance with OECD rules. Grant projects are limited to Japanese firms, such as trading companies, but procurement not tied to Japanese goods and services. Non-project grant aid is untied, though technical co-operation is normally tied. The procurement procedure and contract information on ODA loans is already fairly open, but Japan will be making all procurement more transparent by providing information on bidders and contracts for both grant aid and loans.

Japan has been one of the most prominent and vocal advocates of untied aid. With DAC Members now involved in a major effort to reach consensus on untying aid to the least developed countries -- an issue that has long been identified as the key test of donor countries' coherence of policies towards developing countries -- Japan's position on the recommendation will be critical in making this significant step forward in multilateral untying. It is important therefore that there is the political will and the flexibility in Japan to join the emerging consensus position.

Japan's position on ODA debt is based on the country's own post-war development of repaying all its World Bank loans. Therefore, Japan strongly believes in the ideas of discipline and "self-help efforts", and would consider it a "moral hazard" if the recipient country obligations were to be simply forgiven. Thus, it has sought creative approaches to debt service reduction to lessen the burden for countries incapable of repayment, while simultaneously helping them to fulfil their responsibilities as sovereign states. The cumulated effect of some measures are equivalent to debt cancellation of over 80 per cent. Japan's actions have mainly involved offering grants for debt relief to poorer countries. In FY1997, grants worth USD 233 million were committed to 14 countries to cover interest and principal due to Japan.

Recommendations

- Japan should maintain and increase its ODA volume.

- ODA administration should be strengthened, including staffing, increasing the roles of implementing agencies, decentralisation of field offices, improved aid co-ordination, and enhancement of NGO involvement.

- A new medium-term policy statement for ODA will provide a basis for the re-orientation of Japan's aid policies and management, in line with the new International Development Strategy. Country assistance strategies should be prepared in accordance with the IDS and with participation by recipient countries, other donors, and NGOs; country strategy design teams should be sensitised to the IDS before they go out to the field; and lessons learned from the seven IDS pilot countries should be mainstreamed in the overall ODA programme.

- It will be important for the integrity of ODA to be preserved within the OECF/JEXIM merger, particularly through separate policies and accounts.

- There needs to be an analysis of the domestic roots and the implications of the Asian crisis, including the sustainability of "economic take-off", "self-help efforts", governance and corruption, and institutional and human capacity development.

- Cross-cutting issues such as poverty, gender, and governance, should be mainstreamed, with clear definitions for "basic human needs", "the poor", "poverty", and "poverty reduction".

- Projects should be designed, monitored, and evaluated with a view towards cost-effectiveness, sustainability, technological appropriateness, and socio-economic outcome/impact. Policy dialogue should be given more emphasis.

- Coherence between development co-operation and other economic policies of Japan affecting trade and investment *vis-à-vis* developing countries needs to be systematically promoted.

- Japan is encouraged to further promote untying of its ODA, particularly to least developed countries, bearing in mind also DAC's work in this area.

CHAPTER 1

OVERALL FRAMEWORK AND NEW DEVELOPMENTS

Overview

Japan remained the leading bilateral donor in 1997 with net official development assistance (ODA) disbursements of USD 9.36 billion. After continuously building up its ODA programme through five medium-term plans starting in 1978, Japan announced in June 1997 a major cut of 10 per cent for FY1998 ODA budget in the framework of overall Japanese budgetary reform and indicated further cuts for FY1999 and FY2000. However, these further ODA cuts have now been suspended due to the August 1998 decision on the Financial Structural Reform Act. Therefore, the ODA budget should be stable for at least FY1999, and indeed, the government's budget proposal shows a marginal increase for ODA. The recently announced Japanese yen (JPY) 600 billion [about United States dollars (USD) 5 billion] Special Yen Loans over three years for economic structural reform in Asia will be additional to the ODA budget. The medium-term outlook for Japan's ODA is uncertain because of intense fiscal pressures and the likelihood that new disbursements will be offset to some extent by the flow of repayments on ODA loans.

The major new internal developments in addition to the economic outlook influencing Japan's ODA are:

- Administrative reform of the government.
- Strong support for the new international development strategy (IDS)[1].
- Institution of a more focused country approach in the ODA system.
- A major push to improve quality, transparency and efficiency.
- The Overseas Economic Co-operation Fund/Export-Import Bank of Japan (OECF/JEXIM) merger.

The key external development influencing Japan's ODA is indisputably the recent Asian crisis. At the same time, the Second Tokyo International Conference on African Development (TICAD II), held in October 1998, reflected Japan's concern to ensure proper attention to the development situation of Africa and to promote Asia-Africa co-operation.

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1. As reflected in the DAC Report, *Shaping the 21st Century: The Contribution of Development Co-operation*, May 1996.

Table 1. **Japan's ODA budget**

JPY billion

	FY1997	FY1998			
	ODA	**ODA**	**Increase from FY1997 (%)**	**Share of ODA (%)**	**Share of bilateral ODA (%)**
I. BILATERAL	1 039	928	-11	89	100
Total grants	642	604	-6	58	65
grant aid	*281*	*254*	*-10*	*24*	*27*
technical assistance	*360*	*351*	*-3*	*33*	*38*
Total loans	397	324	-18	31	35
II. MULTILATERAL	130	119	-8	11	
UN organisations	76	76	-1	7	
IFIs	54	44	-19	4	
Total initial ODA budget	**1 169**	**1 047**	**-10**	**100**	

Source: MOFA and OECD.

ODA Charter and Japan's philosophy on aid

For Japan, ODA is an integral part of the nation's foreign policy. It is considered one of its most important diplomatic tools, as the country has in principle renounced the goal of becoming a military power. The Japanese ODA programme is essentially based on economic and diplomatic foundations. It is aimed at supporting developing countries' socio-economic development so as to contribute to their developmental needs and thus to the national interests of Japan. Japan, a country dependent on imports for food and natural resources, clearly sees a mutual economic interest in using ODA to promote economic progress in the developing world.

At the same time, the ODA Charter (see Annex I), adopted by the Cabinet in 1992, affirms that many people still suffer from famine and poverty in the developing countries. Japan cannot ignore this fact if world peace and prosperity is to be maintained, to which stability and further development of the developing world is indispensable. The ODA philosophy of Japan is based on the "economic take-off" of these developing countries to which Japan attaches central importance in supporting their "self-help efforts". ODA should help to "ensure the efficient and fair distribution of resources" as well as "good governance" through human resources development, socio-economic infrastructure, and meeting basic human needs.

The philosophy of the ODA programme is largely based on Japan's own experience in development since the 1860s, and particularly after World War II, as well as its historical relationships with other countries, especially in Asia. To rebuild its economy after World War II, Japan obtained funds in emergency relief and reconstruction aid from the United States. Between 1953 to 1967, Japan also obtained 34 loans from the World Bank, which contributed to the development of core infrastructure

and industry -- the two foundations of Japan's post-war economic development. Japan punctually repaid the loans until the completion of repayments in 1990.

However, Japan had a capacity to use external aid effectively. As the economists K. Ohno and K. Sakurai state:

> "The conditions of Japan in those days and those facing the developing countries and the transitional economies of today are different. If the conditions are different, the policies and directions that need to be pursued are not necessarily equivalent. These conditions not only include economic aspects, such as the international setting, developmental stage, levels of capital and labour force, human capacity of the population, administrative capacity of the government, but also historical, cultural, social, and geographical conditions. It must be noted that, in particular, though it had been impoverished by the war, post-war Japan had already at that point attained sufficient accumulation of human resources, technology, and administrative capacity of the government[2]."

In fact, Japan's industrial revolution started in the 1870s. The country enacted an education law in 1872 that covered both girls and boys, and made primary education compulsory in 1886 (though only under 40 per cent girls and under 70 per cent boys were attending in 1885 and 1891). By the mid-20th century, Japan had a highly literate population, a burgeoning private sector, and a solid national planning system with an effective revenue collection capacity. Though not a necessary condition, Japan being a homogeneous society with little ethnic or religious tensions helped in forming national solidarity towards attaining the goal of development. Unfortunately, these assets are often lacking in today's developing countries, and thus the parallels with Japan's own development after World War II do not apply well in many cases.

The ODA Charter states the value of sovereign equality and non-intervention in domestic matters of recipient countries. Until recently, Japan provided aid on a "request basis" from recipient countries, which made Japan appear a passive donor. Japan considers that developing countries themselves are ultimately responsible for and should take the initiative in their own development. This position of respect towards the formal autonomy of recipient countries is partially attributable to its historical background. First, from the beginning of the Meiji era, Japan strived to develop through self-help efforts by hiring many Western advisors while maintaining the ownership over its own development. Second, Japan invaded several Asian countries during this century, an issue which still arises in its diplomatic relations. This sensitiveness towards non-intervention in the domestic affairs of recipient countries largely explains Japan's cautious stance towards conditionality and policy dialogue in its aid programme (see China report - Annex II).

Japanese thinking about the goals of ODA has evolved recently, particularly with the Asian crisis. An ODA Reform Council for the 21st Century, appointed by the Foreign Minister and composed of representatives from academia, mass media, private sector, diplomatic community, and non-governmental organisations (NGOs), produced a report in January 1998 that proposes new ideas. It acknowledges that there has been a fundamental shift in the ideas about "development" -- away from simple concepts measured by *per capita* gross national product (GNP) to more emphasis on environmental protection, local participation, consideration of indigenous social and cultural values, gender equality, NGO participation, and South to South co-operation. The report also emphasizes the

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2. *Higashi Ajia no Kaihatsu Keizaigaku (Development Economics of East Asia)*, p. 230, 1997: translation by OECD.

need to respond to the criticism that Japan's ODA principles do not provide clear directions as to what actions should be taken in particular contexts. It further endorses the ideas that "human-centred development" and the enhancement of individual's welfare should be the key concepts in Japan's ODA, and that economic growth is only the means to achieve them. JICA and other ODA officials acknowledge that there is a limit to the "trickle-down" theory, which assumes that economic development in a country will automatically reach the grassroots, and that therefore approaches are needed to directly address the situation of the poor.

Furthermore, there has been a shift from a formal "request basis" stance to a more pro-active approach termed "jointly initiated" or "proposal based", which is more of a partnership approach. Japan has heretofore tried to honour the wishes of recipient countries in prioritising aid projects according to its criteria and assumed the initiative and "self-help efforts" of the recipient countries. Recently, Japan has become more active in proposing projects in areas such as environment, human rights, capacity building, and good governance in its aid programme.

ODA reforms

Administrative reform

As mentioned above, Japan is going through major changes in its ODA programme. The overall administrative reform, reducing 22 Japanese ministries to 12 and cutting by 20 per cent the number of civil servants, is expected to be carried out by the year 2000. As part of this overall government reform, the current multi-agency ODA administrative system will be consolidated and MOFA will have enhanced responsibility for setting policy not only for grant aid, but also for policy-making and planning of the loan programme. (Heretofore, the loan programme, implemented by OECF, was supervised by the Economic Planning Agency in consultation with the Ministry of Finance (MOF), MOFA, and the Ministry of International Trade and Industry. Furthermore, JICA will assume a central and co-ordinating role in the implementation of technical co-operation.

Support for the international development strategy (IDS)

Japan assumed a leading role in formulating the Development Assistance Committee (DAC) development strategy adopted in May 1996. The viewpoints underpinning the strategy were put forth at the June 1996 Lyon G7 Summit in the form of an economic communique: *Development Partnerships in the New Global Context*. Those viewpoints were reaffirmed at the Denver Summit in June 1997. The 1997 ODA Report refers to Japan "as a country now striving to build global partnerships under the DAC international development strategy".

In building support for the IDS, Japan has selected seven pilot countries (Zimbabwe, Tanzania, Ghana, Senegal, Ethiopia, Peru and Cambodia) for implementing the strategy. This effort is at an early stage, but approaches and experience derived from Japan's partnership with those countries will eventually be applied more widely in the ODA programme (see Ghana report - Annex III).

Country strategy approach

The need to tailor ODA programmes to the specific conditions of recipient countries while co-ordinating all the ODA instruments in partnership with them and the international community is an idea that has made headway throughout the donor community and in Japan. The Japanese

Government has therefore decided to prepare a five-year policy guideline and a country-by-country strategy, initially for 11 major recipient countries.

The country strategy approach will be reflected in the new organisation of the ODA administration. For instance, JICA will be re-organised on a regional and geographical basis, while retaining some sectoral and technical focus. Country strategy planning will provide a framework for improving the co-ordination of all elements of Japan's aid system. Moreover, opportunities to improve coherence and support for the IDS will become evident at various stages. For example, the teams involved in developing the strategies will need sensitisation in the IDS approach. The development process built around country strategies should be as open as possible, with a high premium placed on co-ordinating with other donors and working with recipient countries, including civil society, to assure the maximum local ownership and partnership (see China report - Annex II and Ghana report – Annex III).

Council on ODA Reform

The recent Report of the Council on ODA Reform provided useful guidelines on how to shift the focus of the ODA programme from quantity to quality (see Annex IV). The report stresses the need for heightened public understanding of and participation in the ODA process and calls for more effective strategies of implementing aid. Concerning the priority sectors of ODA, it recommends: an emphasis on efforts in poverty alleviation and social development with a focus on human-centred development; an accent on basic education and primary health care; new directions in infrastructure development, using ODA only for projects that cannot be funded privately, more bundling with technical assistance, and teaming up with multilateral institutions; emphasis on environmental issues; endeavour to support women in development; stronger emphasis on human resources development; formation of global partnerships; an increase in cross-border regional co-operation; assistance in conflict prevention and post-war conflict development; technical co-operation in areas such as legal and financial systems; and enhancement of the private-sector role.

For the modalities of ODA, the Report recommends: increased public participation, particularly NGOs and recipient country stakeholders; disclosure of information; enhanced development education in Japan, particularly in schools and in higher education; and fostering of international aid experts especially to place in multilateral institutions. As for the implementation of the ODA programme, the Report recommends: formulation of country assistance programmes; increased collaboration of agencies, particularly JICA and OECF; increased delegation of authority to the field; improved evaluation by including other donors and other third parties, examination of environmental and social impact, and disclosure of more information; enhanced collaboration with private sector and multilateral institutions; and increased policy dialogue with recipient countries. The government plans to take action on these recommendations.

Transparency and efficiency

One of the most significant new developments in Japanese ODA is the push to improve transparency and efficiency, of which recommendations were made in a memorandum that was compiled by concerned ministries and agencies in November 1998 (see Annex V). These ministries agreed on the following to enhance transparency: publishing the ODA mid-term policy, the 5-year country assistance programmes, the list of potential loan projects, project evaluations, procurement details (such as name of bidders, bidding amount, name of contractor, contracting amount); and improvement of monitoring and evaluation during implementation. In order to enhance efficiency, the following guidelines, *inter alia*, were issued: better planning by focusing on priority areas;

continuous re-evaluation of the mode of assistance towards the recipient country based on their performance in self-help efforts and good governance; timeliness and flexibility in dealing with specific situations, such as the Asian crisis; and improvements in project preparation, evaluation, and monitoring. As for administration, it recommends better co-ordination among different ministries, the private sector, and other bilateral and multilateral donors; reduction of overlaps in project preparation; better utilisation of NGOs; re-organisation of JICA; and enhancement of field offices.

OECF/JEXIM merger

The merger of OECF and JEXIM is proceeding with a target date of October 1999. The new organisation, provisionally named Japan Bank for International Co-operation, could have annual loan commitments amounting to about USD 25 billion, which would almost be as large as the World Bank's operations. Staff size will be approximately 900, a tenth of that of the World Bank. Plans call for ODA and non-ODA activities to have separate accounts, with the ODA contributions becoming more transparent. The details are still being worked out, but it appears that technical services and staff which will study and prepare the financial interventions for the two entities will be shared. If this proves to be the case, it raises questions as to how the integrity of the ODA process within the new organisation will be preserved.

Asian crisis

The Asian crisis, which began in Thailand with the Thai Baht currency crisis of mid-1997, set off a chain reaction that strongly affected other Asian countries: notably, Malaysia, Indonesia, Korea and others. Already a sizeable literature has been devoted to explaining and analysing the causes, chronology, and impact of the Asian crisis and its global contagion[3]. The Asian crisis is without doubt having a major impact on the Japanese ODA programme.

Recognising the serious situation engulfing many Asian countries, Japan progressively mounted a major response, undoubtedly the largest of any donor. Japan was the first to focus on the crisis in Thailand in the summer of 1997 and drew the attention of other donors to the developing economic instability in the region. Relatively little reporting has been provided internationally about Japan's efforts to support Asian countries to meet the crisis, to help them in their economic recovery and structural reforms, and in providing assistance to the socially vulnerable.

Starting July 1997, its initial response to address the crisis reached some USD 44 billion. This package included: contributions to the International Monetary Fund (IMF) and the Association of South East Asian Nations (ASEAN); assistance for financial sector reforms; Japan's own assistance for private sector activities; facilitation of trade financing and insurance; assistance to the socially vulnerable; human resources development; and measures for foreign students in Japan. Of this amount, about 5 per cent or USD 2.2 billion was in the form of ODA.

After October 1998, Japan launched other initiatives amounting to USD 36 billion, in addition to the USD 44 billion package already announced. Thus, the amount of Japan's assistance since July 1997 has totalled approximately USD 80 billion. The design and implementation of these initiatives are proceeding as follows:

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3. See *IMF-supported Programmes in Indonesia, Korea and Thailand: A Preliminary Assessment*, IMF, January 1999; *Asia Falling* by C. Henderson, McGraw-Hill-Business Week,1998; Asia Homepage (http://www.stern.nyu.edu/~nroubini/asia/AsiaHomepage.html)

- **New initiative to overcome the Asian currency crisis (New Miyazawa Initiative)**
  In October 1998, Japan announced a package of support measures totalling USD 30 billion, of which USD 15 billion will be made available for the medium to long-term financial needs for economic recovery in Asian countries, and another USD 15 billion will be set aside for their possible short-term capital needs during the process of implementing economic reform.

- **Asian currency crisis support facility**
  Japan established this facility in the ADB under the New Miyazawa Initiative (approximately USD 3 billion). The facility helps Asian countries facing economic difficulties through guarantees to private bank loans, bond insurance, and interest subsidies. This facility can be utilised under the "Asian Growth and Recovery Initiative" announced by Japan and the United States at the Asia Pacific Economic Co-operation (APEC) Summit Meeting in November 1998.

- **Special Yen Loan Facility for economic structural reforms of the Asian countries**
  Announced at the ASEAN and Japan, China, Korea Summit Meeting in December 1998, Japan established this facility of a maximum total of JPY 600 billion (approximately USD 5 billion) over a three year period. It will support infrastructure developments so as to contribute to economic stimulation and employment generation in Asian countries. For the time being, an interest rate of 1 per cent and a repayment period of 40 years will be applied. The funds will be tied to Japanese companies while remaining in conformity with OECD rules on tied aid credits.

- **Other assistance measures**
  At the Japan-ASEAN Summit Meeting in December 1998, Japan announced new measures such as local training of 10 000 people who are assuming a key role in various industries (approximately USD 20 million).

Of the approximately USD 80 billion Japan is devoting to the Asian economic crisis, about 13 per cent or USD 10 billion is in the form of ODA. This portion of the package is a key element in helping to maintain stability and to move from crisis to recovery. It includes assistance to the socially vulnerable, provision of food and medical supplies, human resources development, measures for foreign students in Japan, and technical assistance, both bilateral and multilateral through the World Bank and the AsDB. An example of the type of scheme being designed under the new Miyazawa initiative is the USD 1.4 billion in Japanese financial support for the Philippines. It comprises a USD 300 million power sector restructuring loan; a USD 300 million banking reform project loan; a USD 500 million loan for private sector development through the Development Bank of the Philippines and a USD 300 million loan for a Manila air quality improvement programme. Similar types of assistance are being provided to Thailand (USD 1.85 billion), Malaysia (USD 1.5 billion), and Indonesia (USD 2.4 billion).

Because the Asia economic crisis developed rapidly and responses had to be prepared immediately, it is not easy to understand fully the intricacies of the programmes provided and planned, nor how they fit with other international initiatives. As the crisis moves towards a recovery phase in some countries, thanks in part to Japan's major contributions in conjunction with other members of the international community, three aspects need to be highlighted:

- First, Japan has moved swiftly, devoting considerable financial resources to address the crisis, and is continuing to do so. Dealing with the Asian crisis is an enormously complex undertaking that will require a great deal of time and expertise.

- Second, the role of ODA in the response, while representing a minor share, is important to the success of the overall programme.

- Third, it will be necessary to deepen the analysis of the crisis and recovery process to understand exactly what happened, what has been done by the various actors, the sustainability of "economic takeoff" and "self-help efforts", and, above all, to assure that root causes of the crisis are addressed. The Asian crisis, sometimes referred to as a "currency crisis", is a complex puzzle with economic, financial, governance, institutional, environmental, and social aspects, all of which need to be tackled.

The Second Tokyo International Conference on African Development

The Tokyo Agenda for Action adopted at TICAD II (19-21 October 1998) was the main written product of this conference. It provides a guide for policy implementation by African countries and their partners for African development as they enter the 21st century. All of the major actors in African development co-operation participated, including some 80 countries (51 African, 11 Asian, and 18 North American and European). Twenty-two African and Northern NGOs attended in addition to 40 regional African-based organisations and 40 international development agencies.

TICAD II reached agreement on goals and priority actions in the areas of:

- Social development: education, health and population, measures to assist the poor.

- Economic development: private sector development, industrial development, agricultural development, external debt management.

- Foundations for development: good governance, conflict prevention and post-conflict development.

The participants agreed to follow up their commitments with concrete actions at the national, regional, and international levels, and to keep up the momentum generated by TICAD II. The conference produced an illustrative list of some 370 ongoing and pipeline projects that support the goals of the Tokyo Agenda for Action. A monitoring and follow-up programme of the Tokyo Agenda for Action is being implemented (see Annex VI).

CHAPTER 2

ORGANISATIONAL STRUCTURE AND AID MANAGEMENT

Overall structure

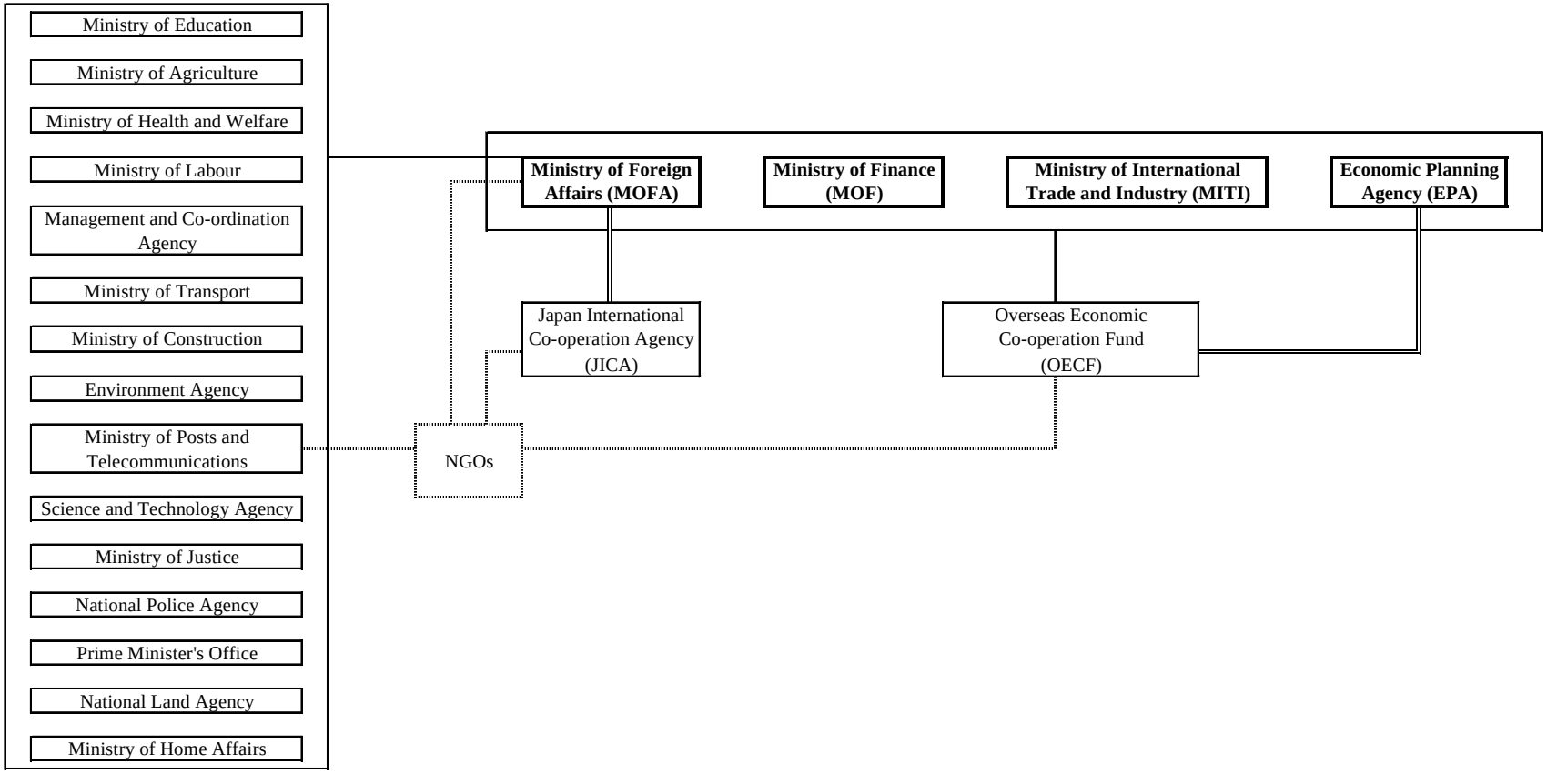
Japan has had many actors in its ODA administrative system as compared to other DAC Member countries. There are four main ministries -- the Ministry of Foreign Affairs (MOFA), Ministry of Finance (MOF), Ministry of International Trade and Industries, and the Economic Planning Agency -- and about 15 other ministries and agencies, plus several implementing organisations involved in the programme (see Chart 1 below). Examples of smaller projects being implemented by the miscellaneous ministries include recipient country police training by the Department of Police, educational programmes for foreigners living in Japan by the Ministry of Education, and improvements in immigration/emigration management of South-East Asian countries by the Ministry of Justice. The budgetary allocations to these technical ministries and agencies beyond the main four are relatively small, amounting to approximately USD 600 million or less than 7 per cent in total (see Table 2 below).

Economic Co-operation Bureau (ECB) of MOFA

Previously, MOFA assumed a co-ordinating role for all these ODA implementing bodies, but lacked a clearly defined mandate for this function. With the Administrative Reform, MOFA will be accorded the *de jure* co-ordinating authority for ODA activities. Within MOFA, the ECB mainly administers and co-ordinates ODA operations. It currently has about 172 staff, divided among divisions of: Aid Policy; Overseas Disaster Assistance; NGO Assistance; Research and Programming; Evaluation; Multilateral Co-operation; Technical Co-operation; Development Co-operation; Loan Aid; and Grant Aid (see Chart 2 below). However, a re-organisation of ECB is being considered in order to strengthen its geographical focus in line with the country strategy approach. The initial FY1998 ODA budget for MOFA is JPY 557 billion (about USD 4.72 billion), or 53 per cent of the total budget, from which the technical co-operation budget is transferred to JICA and the multilateral contribution channelled to United Nations (UN) agencies.

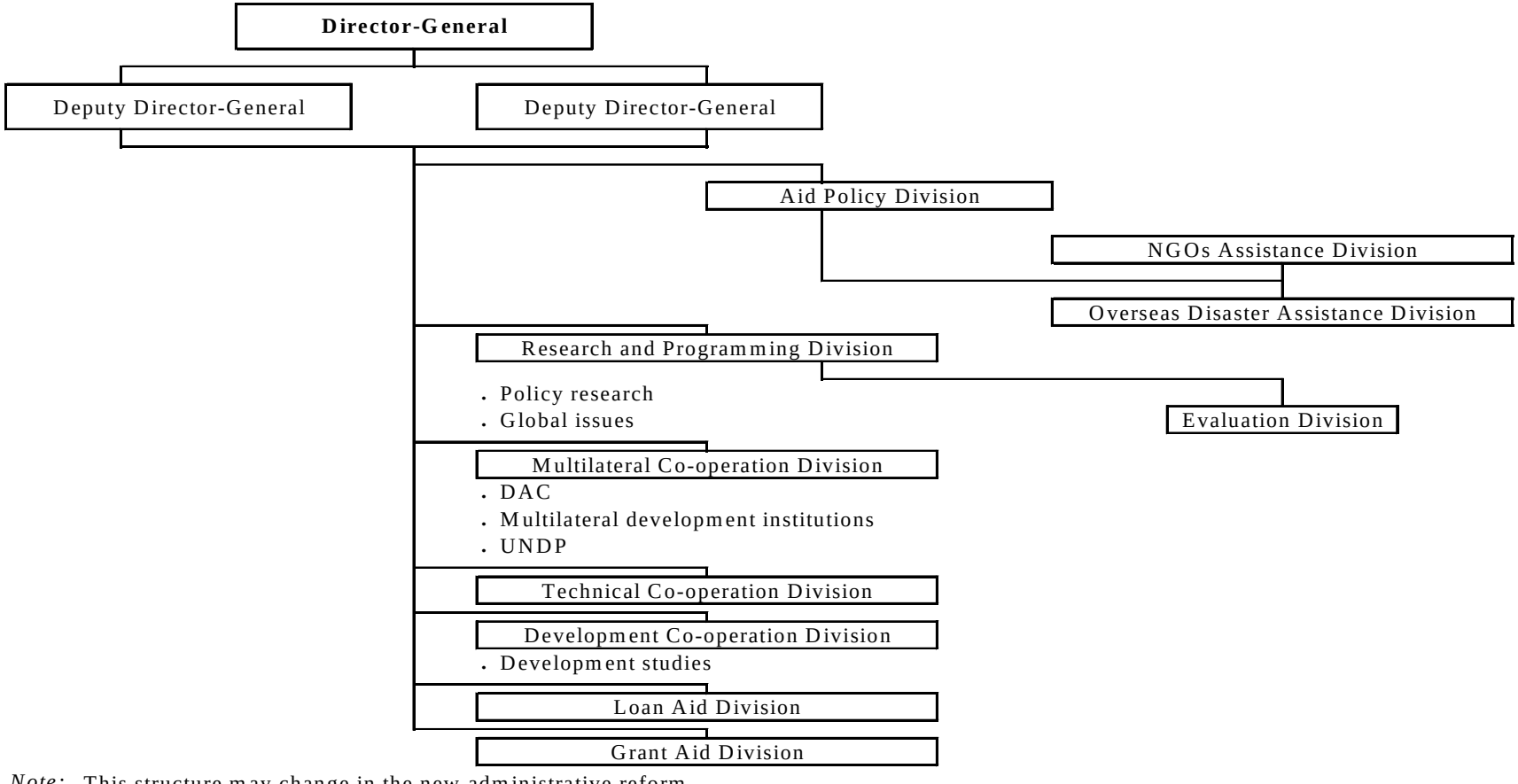
As MOFA assumes a stronger co-ordinating role within the development co-operation system, its capacity will need to be strengthened. In the past, co-ordination between ministries and agencies has been too weak and problematic. While this will no doubt imply some institutional and organisational adjustments, one of the key issues will be staffing. ECB is currently staffed primarily by foreign service officers and secondments from other ministries who rotate rather rapidly within MOFA or back to their ministries of origin. These are supplemented by non-career technical and administrative staff, with diplomats and specialists posted in embassies who co-ordinate the country programmes. Past DAC Reviews have pointed out that Japan's programme would be considered among the most thinly-staffed among DAC Members and questioned how more stability and continuity might be attained. The new changes in Japan's development co-operation place even more responsibility on MOFA and suggest a critical need to review the career specialisation and stability of staff again.

Chart 1. **Actors in Japanese bilateral development co-operation**



Note: The structure will be changed under the new administrative reform.
Source: OECD.

Chart 2. **Economic Co-operation Bureau of the Ministry of Foreign Affairs**



Note: This structure may change in the new administrative reform.
Source: MOFA

Table 2. **Japan's ODA budget in FY 1998**

USD 1 = JPY 118

	JPY million	USD million	Per cent
Foreign Affairs	556 789	4 718.6	53.2
JICA	*176 200*	*1 493.2*	*16.8*
UN	*75 500*	*639.8*	*7.2*
Grants and other	*305 089*	*2 585.5*	*29.1*
Finance	367 883	3 117.7	35.1
OECF	*323 900*	*2 744.9*	*30.9*
IFIs	*43 500*	*368.6*	*4.2*
Other	*483*	*4.1*	*0.0*
International Trade and Industry	50 845	430.9	4.9
Economic Planning Agency	1 009	8.6	0.1
Sub-total (the four ministries)	***976 526***	***8 275.6***	***93.2***
Education	44 920	380.7	4.3
Agriculture	8 476	71.8	0.8
Health and Welfare	8 182	69.3	0.8
Labour	3 316	28.1	0.3
Management and Co-ordination Agency	1 635	13.9	0.2
Transport	840	7.1	0.1
Post and Telecommunication	820	4.7	0.1
Construction	709	6.9	0.1
Environment	558	6.0	0.1
Science and Technology Agency	554	4.7	0.1
Justice	551	4.7	0.1
National Police Agency	127	1.1	0.0
National Land Agency	52	0.4	0.0
Prime Minister's Office	0	0.0	0.0
Home Affairs	0	0.0	0.0
Sub total (the technical ministries)	***70 740***	***599.5***	***6.8***
Total ODA budget	**1 047 266**	**8 875.1**	**100.0**

Source: MOFA.

Implementing agencies

The policy management issues in development co-operation are complex and the stakes are high. Consideration needs to be given as to how these challenges can be met given staffing constraints. Equally important would be to determine how additional responsibilities could be delegated to implementing agencies, such as JICA and OECF, in order to enable MOFA to concentrate more on strategic issues and co-ordination. To move in this direction, implementating agencies could assume increased authorities within approved country strategies. For example, JICA could take on a larger role in emergency relief, grassroots grants, NGO administration, and other grants aside from technical co-operation.

JICA

JICA, established in 1974, carries out the technical co-operation component of ODA with about 1 200 staff, of which about 330 are posted in 55 overseas offices, covering 151 countries. Its initial FY1998 budget, JPY 176 billion, or 17 per cent of the ODA budget, was allocated from MOFA to carry out activities such as: training, development studies, project-type technical co-operation, youth invitation programme, emergency disaster relief, support for emigrants, Japan Overseas Co-operation Volunteers (JOCV), dispatch of experts, pre-implementation studies, supervision of grant aid, and supply of equipment and materials. JICA staff are recruited as new graduates from college or masters programmes with little or no professional experience -- a common practice in Japan -- and in mid-career (under 35 years old) from those who have had some developmental experience. JICA also employs staff on secondments from other sector ministries, with relatively little development experience. Since JICA contracts out most of the technical work, it grooms its staff to become all-round development administrators by posting them to various countries, rotating them from one unit to another after a few years, and sending them for higher degrees at foreign universities.

The post of JICA's President has traditionally been reserved for a senior former MOFA official, and several senior posts are also taken up by secondments by MOFA and the technical ministries. Shortage of staff in JICA staff has recently been compensated by contracting-out and posting or sending development specialists and associated specialists to the field. In 1996, 2 000 specialists were registered with the agency, and about 21 000 other non-JICA consultants were involved in study teams and in short or long term assignments.

OECF

OECF handles ODA loans in the Japanese aid programme. Its commitments in FY1997 for 21 countries amounted to JPY 1.0 trillion (about USD 8.3 billion) and disbursements totaled JPY 650 billion (about USD 5.4 billion). OECF operates with an extremely low staff establishment on a comparative basis, as its loan portfolio is managed by a total of 339 staff members. In FY1997, of these, 54 staff were posted in 13 developing country offices and three developed country offices. OECF is trying to ease the staff constraints by using external consultants and specialists for its advisory services to developing countries and hiring contractual staff for secretarial work. With the expected OECF/JEXIM merger, there is concern over how the integrity of the ODA function can be preserved in the face of shared and technical staff.

Aid co-ordination with other donors

Japan recognises the need for enhanced aid co-ordination in view of the difficulties that recipient countries face in dealing with the donor community and that donors need to support the formulation of country-specific development strategies. Emerging global-scale issues have increased the need for better co-ordination and efficient use of ODA resources. At the macro level, Japan engages in policy dialogue with many donors in light of the IDS, including the United States, France, Germany, United Kingdom, Canada, Australia, Nordic countries, Spain, Portugal, Korea, and the European Community (EC). In 1993, Japan and the United States agreed on a Common Agenda which included undertaking specific topics such as the Global Issues Initiative for population and AIDS. JICA and OECF carry out annual consultations with the World Bank and other international organisations. With other leading donor countries, Japan has set out co-operative frameworks in ODA within comprehensive bilateral relations.

OECF and multilateral developments banks (MDBs) have frequent exchanges and carry out joint activities at various stages from project formulation, appraisals, to monitoring. Japanese officials consider that experience in cofinancing has generally been successful. Between FY1993 and FY1997, the cumulative total of OECF cofinancing was JPY 592 billion (an estimated USD 4.2 billion) for 73 loans, representing approximately 11 per cent of all loan commitments for that period. Approximately half of these projects were with the World Bank, followed by about 21 per cent with AsDB, and 17 per cent with the Inter-American Development Bank. In FY1997 alone, the amount of cofinancing by OECF totaled JPY 79 billion (about USD 660 million) on a commitment basis for 8 projects in Brazil, Bangladesh, Jordan, Peru, Georgia, Indonesia, Mongolia, and Pakistan.

Japan is agreeable in principle to the participation in sector investment programmes (SIPs) with other donors. However, along with some other bilateral donors, its rules for grants are not conducive to contributing to a common fund, mainly due to difficulties in accounting for the expenditures. Therefore, Japan tries to participate in SIPs by taking on a defined segment of an overall sectoral plan through the provision of equipment, supplies, facilities, and technical co-operation, primarily in the context of projects. In the case of ODA loans which are untied, there are fewer problems, unless other donors' programmes are tied. Japan has contributed to several structural adjustment and sectoral investment programmes, particularly in the economic infrastructure areas. Japan's efforts to participate in overall sectoral plans are particularly important when Japanese projects are relatively large within the sector and when significant recipient country financial and human resources are necessary to sustain the operation after Japanese financing.

In field implementation, one of the difficulties in effective co-ordination is shortage of staff, especially those with extensive experience in development. JICA is increasing its presence by hiring and sending contracted experts from the open market in addition to secondments from technical ministries. On the other hand, with only 13 field offices to cover its major recipient countries, OECF cannot always send representatives to attend frequent in-country donor co-ordination meetings where it does not have field offices (see Ghana report - Annex III). In these cases, staff members of Japanese Embassies often participate in such meetings. OECF has been making efforts to overcome these difficulties by sending contracted experts under the Special Assistance Facility (SAF) budget -- a grant-based scheme to carry out studies during the formulation, implementation, and monitoring of projects -- and by increasing professionals hired locally by representative offices.

Japan recognises these shortcomings and has gradually increased its ODA administration presence in the field from 126 (not including contracted experts or volunteers) in 1977 to 641 in 1998, which is a five-fold increase in two decades (see Table 3 below). However, this is less than the expansion of the ODA programme which increased by eight times (see Figure 1 below). The limited decentralisation at the field level, in particular in terms of delegation of responsibilities, also hinders the ability to make quick and appropriate decisions in co-ordinating programmes. Japan has devolved some decision making authority in procurement, implementation, and grant approvals in recent years. In light of the partnership strategy, an increased field presence and more delegation of responsibility would help to maximise collaboration with other development partners.

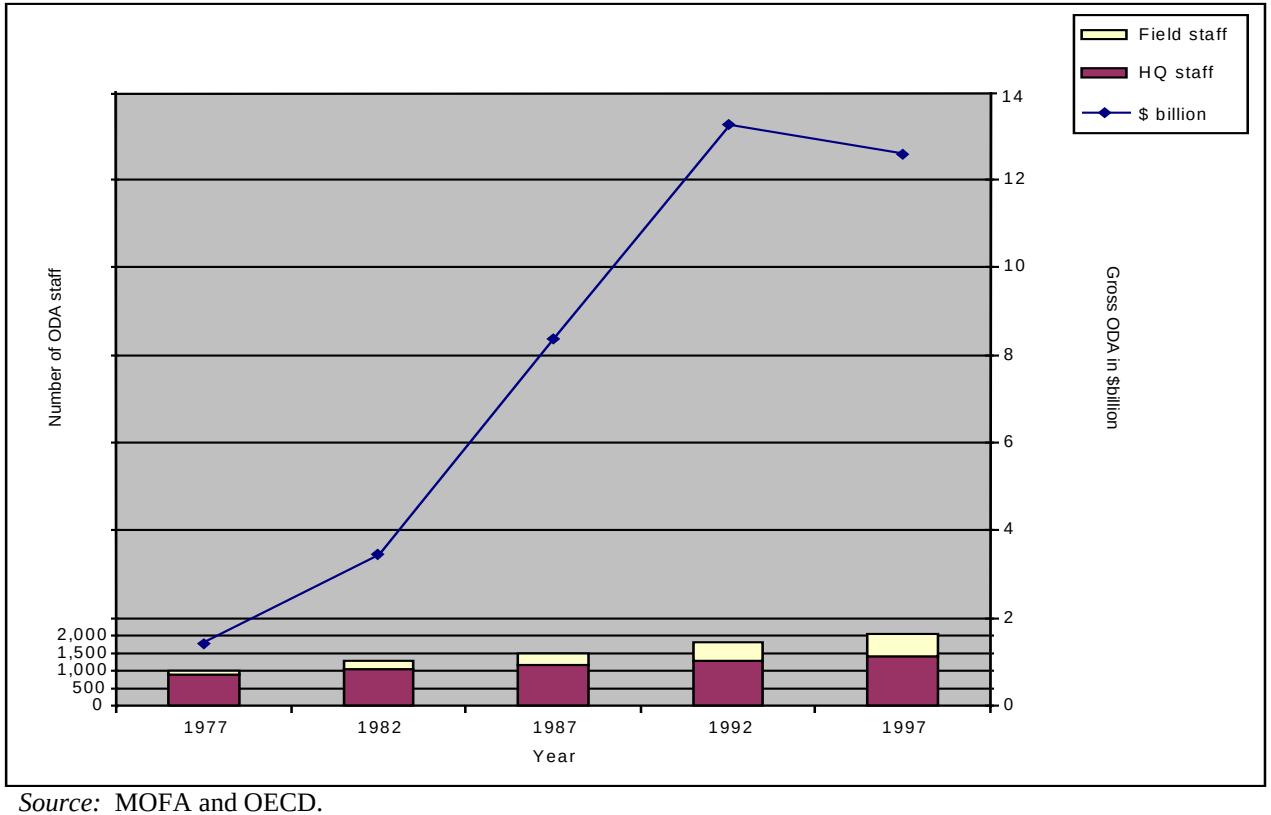
Table 3. **Evolution of staff resources in Japanese ODA**

	1977	1982	1987	1992	1997	1998
MOFA[a]	151	205	270	371	442	430
of which: overseas[b]	54	97	146	218	269	258
Other ministries[a, c]	98	99	100	107	110	108
JICA	579	741	867	1 023	1 173	1 180
of which: overseas	57	111	156	254	324	329
OECF	180	235	252	297	333	332
of which: overseas	15	22	33	49	54	54
Total staff	1 008	1 280	1 489	1 798	2 058	2 050
of which: overseas[d]	126	230	335	521	647	641
Share of field staff in total staff	13%	18%	23%	29%	31.4%	31.3%
Gross ODA/staff (USD million)	1.6	2.6	5.5	7.3	6.1	-

a) Numbers indicated are those who are directly in charge of each ministry's ODA budget, while other bureaus of the ministry occasionally are involved.
b) Attachés to MOFA missions from other ministries are counted as MOFA mission members.
c) Numbers indicated are those of aid-related staff of MOF, Ministry of International Trade and Industries and Economic Planning Agency.
d) Not including contracted experts or volunteers.

Source: MOFA.

Figure 1. **Japan: ODA staff and gross disbursements**



Source: MOFA and OECD.

NGOs

MOFA support to NGOs

Support for NGO activities, less than 3 per cent of the Japanese ODA programme, has increased rapidly in recent years. MOFA has two main instruments for this component: a) Subsidy System for NGO Projects and b) Grant Assistance for Grassroots Projects (GGP). The former is designed to subsidise part of the cost of Japanese NGO activities in developing countries in areas such as agriculture, fisheries, education, women in development (WID), health, local industries, environmental conservation, and transportation. The maximum subsidy is JPY 15 million (about USD 125 000) and cannot exceed half of the total project costs. Since the inception of this programme in 1989, the total budget for the project has grown ten-fold to JPY 1.2 billion (about USD 85 million) in 1997, which funded 224 projects of 116 Japanese NGOs operating in over 50 countries. This makes the average funding per project around JPY 5.4 million (about USD 45 000).

The FY1998 budget for this component was cut for the first time by 4.1 per cent, which is possibly a setback to the direction of the ODA Reform Council's views that advocate more NGO involvement. Although the ODA budget in general is facing a reduction, there is room to foster more collaboration with NGOs in enhancing effectiveness of the Japanese aid programme, particularly to compensate the shortage of official ODA staff in the field. Therefore, increasing the budgetary allocation for this valuable component needs to be seriously reconsidered.

The other instrument for NGOs, the GGP, is a facility for embassies to fund Japanese or non-Japanese NGOs and the recipient country's local public bodies in implementing grassroots projects in principle of up to JPY 10 million (about USD 84 000). The areas of funding are health, primary education, agriculture, environment, poverty relief, WID, telecommunications and transportation. Since inception, the funding has been used mainly for constructing buildings and procuring materials and equipment. Salary and administrative costs are not covered by this fund, which limits the scope of relevant activities that can be supported at the field level. Budgetary allocation for this facility has increased over the years from JPY 300 million in FY1989 to JPY 5.7 billion in FY1998. In FY1997, 964 projects with a total amount of approximately JPY 5 billion (over USD 40 million) was disbursed worldwide, which makes the average funding JPY 5.2 million (over USD 40 000) per project. Decentralisation of authority has taken place and Embassy officials are authorised to approve funding up to JPY 4 million (slightly over USD 33 000) for some areas. Although each funding is relatively modest, this facility allows small projects that might otherwise be neglected to be implemented without a long waiting period. Further increase in this component, cofinancing of salary and administrative costs, enhanced decentralisation of authority to the field, and strengthened administrative staffing with NGO expertise at MOFA and at embassies would be a quality improvement of the ODA programme.

Postal Savings for International Voluntary Aid (POSIVA)

An interesting scheme for NGOs, though not part of ODA, is the Postal Savings for International Voluntary Aid (POSIVA), administered by the Ministry of Posts and Telecommunications. POSIVA is a fund consisting solely of donations by individuals who voluntarily contribute part of their after-tax interest earnings on their postal savings accounts. This fund is pooled by Ministry of Posts and Telecommunications and disbursed to Japanese NGOs to implement projects in developing countries in areas of health, agriculture, food aid, education, vocational training, and so on. Since inception in

FY1990, the cumulative number of contributors increased dramatically and steadily from 2.1 million to 24.3 million individuals in FY1997. In other words, currently, almost one out of every five Japanese citizen is contributing to this fund. These participants represent a substantial base on which to build public education in development co-operation.

Unfortunately, during this period, the interest rates in Japan dropped from around 3 per cent to about 0.25 per cent per annum, thereby shrinking the actual pool of donations from a peak in 1994 of JPY 3.0 billion (about USD 25 million) to JPY 1.2 billion (about USD 10 million) in FY1997. During the last fiscal year, this amount was distributed to 234 projects in 52 countries, mainly in Asia and Africa, which makes an average of JPY 5.1 million (slightly over USD 40 000) funding per project, similar to those of MOFA's funding schemes. POSIVA enables ordinary citizens to receive information on the developmental issues of developing countries and give continuous donations with a minimum of paperwork. Further refinements in quality could be made in future years with increased co-ordination and collaboration with MOFA, JICA, and other developmental actors, particularly in gaining expertise in NGO administration for project selection, supervision, and evaluation.

Situation of Japanese NGOs

Although public acceptance towards domestic NGOs has grown following the Kobe earthquake in 1995, the majority of Japanese NGOs working in development co-operation are still underfunded, understaffed, underskilled, and relatively young compared to the counterparts of other DAC member countries (see Box 1). According to a 1996 survey carried out by the Japanese NGO Centre for International Co-operation (JANIC), most Japanese NGOs operated on annual budgets between JPY 5 to 30 million (USD 40 000 to USD 250 000), less than 10 per cent had legal status, and the mean number of staff were eight to nine per NGO with only 55 per cent having more than one full-time paid personnel. Furthermore, the number of Japanese paid staff working overseas were only 228. Most of the NGOs were dependent on part-time staff and volunteers for its administration. The income of NGOs was on average: membership fees and individual donations (61 per cent); governmental subsidies including international organisations (10 per cent); fund-raising activities (8 per cent); POSIVA funds (5 per cent) and grants from private foundations (4 per cent).

POSIVA aside, Japanese corporate and individual contributions to NGOs are not widespread. In particular, the concept and practice of good corporate citizenship or philanthropy is not well established in Japan compared with some other DAC countries. The reticence by the business sector to provide NGO funding is attributed partially to the lack of information on NGOs and concerns over their legitimacy and accountability. Furthermore, current Japanese tax law does not allow non-certified NGOs to receive tax-exempt donations from individuals or corporations. To address these issues and to legitimise NGOs, a Non-Profit Organisation (NPO) Law was passed in March 1998 by the Diet after a three-year debate. Although this Law has provided an easier incorporation process for civil society groups, it has been criticised for lacking provisions for liberal tax deductions towards NGO contributions. The Bill did, nevertheless, include a clause for re-examining the legislation in two years. Japanese NGOs need to be liberated from the double bind of limited government support and insufficient corporate and private contributions if they are to take on a larger and effective partnership role in the Japanese ODA programme. Many Japanese NGOs have gained considerable experience in recent years and deserve to be accorded an enhanced role in the aid delivery system. Consideration could also be given by MOFA in providing a facility to encourage Japanese NGOs to gain expertise and to carry out effective projects by teaming with NGOs of other DAC Member countries.

Box 1. **A quick look at Japanese NGOs in 1996**

- Three hundred and sixty-eight NGOs were listed in the Directory of Japanese NGOs concerned with International Co-operation:
- Less than 10 per cent had annual budgets of more than JPY 100 million (USD 830 000);
- Most NGOs had annual budgets of between JPY 5-30 million (USD 40 000-USD 250 000);
- NGOs derived their income from:

		%
⇒	membership fees	36
⇒	donations, contributions from individuals	25
⇒	income-generating activities	8
⇒	grants from private foundations	4
⇒	POSIVA funds	5
⇒	other government subsidies, including local government subsidies and UN entrusted funds	10
⇒	others, including carry-over funds from the previous years	14

- The combined percentage of income from self-generated activities was 68 per cent.
- The total number of regular donors was about 340 000.
- Less than 10 per cent of NGOs had legal status.
- Only about half the NGOs had more than one full-time paid staff.
- There were 690 full-time staff, 321 part-time staff and 3 400 volunteers working for NGOs in Japan.
- There were 228 Japanese NGO staff working overseas.
- More than 2 000 local staff were working for Japanese NGOs overseas.
- Main activities covered the following:

  overseas work: education, medical and health services, vocational training, environmental protection, rural development, relief and emergency assistance for refugees, and fair trade.

  domestic work: development education/global citizenship education, advocacy, and protecting human rights of foreigners in Japan.

Source: JANIC (edited by OECD).

Information and public opinion

Public information efforts

Japan's public information on ODA continues to be one of the most wide-ranging of DAC Member countries. The annual reports compile extensive and up-to-date information and data on ODA activities, including brief portfolios of each country. In addition to the Japanese version, MOFA publishes an abridged version in English, and JICA and OECF in English, French, and Spanish. Recent ODA annual reports by MOFA include ODA profiles of other DAC Member countries, funding for NGOs, as well as activities of several multilateral organisations, to which Japan is a major donor.

There are various homepages of ODA in both Japanese and English which are updated regularly, though the translation causes some delay. JICA receives about 8 000 site-visits per day both domestically and from overseas readers. The OECF site contains various guidelines such as on environment, procurement, and employment of consultants by borrowers, in order to enhance transparency and understanding by the public. Annual reports on selected evaluations are published, as well as numerous brochures, journals and newsletters on a regular basis. The International Co-operation Plaza located in down town Tokyo operated by the Association for the Promotion of International Co-operation (APIC), provides the public with publication and information on ODA and a forum for NGO informational exchange. It is also visited by elementary and secondary school students on academic study tours. There are furthermore 17 branches of the plaza located in many regions in Japan. Every year, 6 October is designated as "International Co-operation Day" and various events are held throughout the country. In 1998, about 180 booths were set up for this event in Tokyo's Hibiya Park by NGOs, former JOCV volunteers, universities, government, JICA, OECF, international organisations, and private companies engaged in economic co-operation, to which an estimated 165 000 people participated and learned about development co-operation through various forms of information sharing and presentations.

Information disclosure

Japan is in the process of enacting a law on information disclosure, which ensures the citizens' basic right to access information on public expenditures and activities. Currently, some ODA related information such as country studies, project documents, project evaluation reports, and others are not available to the public. Making such information available would enhance transparency in the ODA system and could foster better understanding and support for the programme. In parallel with efforts to make the Japanese programme more effective and results-oriented, it is important to promote public education that highlights the relevance of objective improvements in human-centred development, as opposed to emphasizing inputs such as facilities built, supplies and equipment provided, and numbers of people trained, or how much appreciation was expressed by the recipients.

Local governments

Local governments play an integral role in the Japanese ODA programme, mainly through training recipient country trainees at 14 JICA facilities around the country, but also through sending local experts and forming twinning arrangements with recipient country cities. For 1998, MOFA earmarked JPY 1.1 billion (over USD 90 million) for subsidies to local governments, which was allocated to the

training of 700 foreign trainees, assignment of 34 experts overseas, and JOCV recruitment and promotional activities. The cumulative number of recipient country trainees who were supported by ODA subsidies to local governments is about 5 500 since 1988.

Japan Overseas Co-operation Volunteers (JOCV)

The JOCV programme is considered one of the flagships of Japanese development co-operation. Started in 1965 and managed by JICA, the programme recruits young Japanese women and men nationwide to carry out two-year volunteer services in developing countries. Competition to become a JOCV is intense due to popularity and difficult skill requirements, and once selected, volunteers undergo intensive local language training before they are posted overseas. The fields of co-operation include: agriculture; forestry; fisheries; civil, electrical, and systems engineering; education in maths and science; public health; Japanese language; archaeology; and sports. In 1998, over 2 300 volunteers were posted in 59 countries, making a cumulative total of about 18 400 volunteers since inception. Some of these volunteers, who have had grassroots experience in developing countries, eventually form a cadre of development experts which would become available to the ODA system through various governmental and non-governmental channels.

Public opinion

In 1997, APIC started carrying out nationwide opinion surveys. According to the latest one available, 13 per cent responded that they knew specifically what ODA was about, 64 per cent knew in general but not in detail, and 23 per cent did not know at all. When asked about national interests in ODA, 7 per cent responded that it should be directed to promote Japanese business, and 31 per cent responded that ODA should be directed for the benefit of developing countries and that Japan should not consider its national interests. The rest were divided almost equally among opinions that Japan's interests will be met by assisting in: regional peace and prosperity (23 per cent); in global issues (23 per cent); and do not know (25 per cent).

It is interesting to note that a relatively high number of respondents chose categories such as medical care, poverty reduction, environment, public health, and education, as areas appropriate for ODA. Conversely, while Japan allocates about half of its ODA budget to the economic infrastructure sector, no more than 13 per cent chose any category in this sector. When asked about the image that the word ODA evoked, more than half responded that it was about helping the people of poor countries; moreover, about half thought that Japan's ODA was being used in areas such as public health, food production, technology transfer, human capacity development, and environment. Less than one in five thought that it was about building economic infrastructure and that ODA was being effective in these areas. In other words, there appears to be somewhat of a gap between the reality of Japan's ODA and the public's perception and choices.

The Prime Minister's Office has also been conducting a separate public opinion poll on ODA for more than two decades. According to the one held in 1996, concerning the level of support for ODA, 45 per cent of the respondents replied that Japan should maintain the current level of economic assistance to developing countries, 31 per cent favoured an increase, 14 per cent preferred a reduction, 2 per cent chose a total abolishment of the programme, and 8 per cent responded that they did not know. Over the years, the trend shows a mixed message. On the one hand, there is an increase in opinions for maintaining current level support. However, on the other hand, there is a decrease in the support for ODA enhancement and an increase in support for curtailing or abolishing the programme. What is encouraging is that there is a clear reduction in those who responded "do not know". The Government

of Japan does acknowledge that ODA is not sufficiently understood by the public and that there is a need to reinforce its effort in this area. Particularly in light of the current recession, efforts may be required to heed public opinion's sectoral preferences by re-orienting the programme portfolio and by emphasizing the effectiveness of the Japanese ODA programme, lest the support for ODA declines further.

CHAPTER 3

SECTORAL, CROSS-CUTTING AND EFFECTIVENESS ISSUES

Health

The total share of support towards the social sectors in Japan's bilateral programme has fluctuated between 21-27 per cent in the past five years. The health sector in 1996-97 took up 3 per cent of commitments, mainly concentrated in tertiary and curative health, such as support for hospitals and high technology equipment, medical research institutions, high level training, and posting of Japanese advisors (see Ghana report - Annex III). Further breakdown shows that the contribution to basic health was 1 per cent of bilateral ODA (see Table VII-5).

Recently, Japan has begun to recognise the importance of primary health care. The share of support for primary health has gradually increased, along with the realisation that good health should be a basic human right entitled to people without disparities and inequalities. Furthermore, there has been a recognition that there is a need to shift from expensive tertiary forms of care to primary services, especially in least less developed countries that have not been able to invest significantly in the health care-field. There is also greater understanding of the need for sustainable systems based on cost-sharing and cost-recovery from patients and communities, use of locally available human and financial resources, and appropriate infrastructure and technologies that are suitable to local conditions at affordable costs. Closer collaboration with NGOs is also considered necessary, particularly for adequate provision of health care at community levels.

These are all commendable directions that could potentially bring tangible health improvements in recipient countries, particularly among the poor. These ideas should be mainstreamed in Japan's programme and translated into effective implementation, resulting in the development of sustainable and cost-effective health delivery systems. Japan itself currently has the lowest infant mortality rate and highest average longevity in the world; therefore, it would seem to have a wealth of experience to share with developing countries regarding, for example, how Japan's community health insurance schemes developed and evolved in the 19th century and pre-World War II period. In fact, this is one area where Japan has a comparative advantage and could step up the intellectual contributions it makes, in addition to resources for its aid programme.

Japan is making efforts to deal with population and other health sector challenges, such as AIDS, polio, tuberculosis, and parasitic diseases, which includes malaria and schistosomiasis. In 1997, Japan contributed USD 48 million to the World Health Organization (WHO) and USD 29 million to UNICEF. Aside from these core contributions, Japan makes multi-bilateral grants for specific programmes within countries or regions. From FY1993 to FY1997, Japan provided about JPY 2.8 billion (an estimated USD 22 million) to the efforts of WHO and UNICEF to eradicate polio in East Asia and the West Pacific through funding polio vaccines, cold chain equipment, and materials for surveillance. Partially due to this support, the incidence of polio dropped sharply from 1 918 cases in 1992 to 141 cases in 1996, almost eradicating the disease from this region. Based on this successful experience, Japan has announced plans to assist in the eradication of polio from Africa by the year 2000. These efforts are mainly implemented by multilateral institutions, but this type of

outcome-oriented assistance by Japan is welcome. A similar approach, rather than an input-oriented focus, should be mainstreamed in Japan's bilateral health programme which would improve the quality of its development co-operation.

Education

Japan has historically emphasized basic education of its own people, which is the foundation of the nation's development. Many Japanese children in the Edo period studied in "temple huts" instead of elaborate schools long before any formal educational system was established. Curiously, Japan pays little attention to this area in its ODA programme. In 1996-97, 6 per cent of its bilateral ODA was allocated to education, and further breakdown suggests that 1 per cent was allocated to basic education (see Table VII-5). The majority of support went to higher education such as universities, research institutions, and vocational training, particularly in engineering and high technology.

Within basic education, the support consisted mainly of placing JOCV staff as teachers of maths and science or supporting the construction of schools mostly through the Grant Aid for General Projects and the GGP. Although Japan started to pay more attention to budget, recurrent costs, and availability of human resources of recipient entities in basic education projects, in general, the Japanese programme has yet to establish a system to conduct analyses on the impediments to schooling and on the ability of communities to maintain schools, monitor enrolment rates, or carry out constructive and creative dialogue with the recipients to ensure increased girls' enrolment, as targeted in the IDS. Re-orienting the portfolio towards improvements in the quality of basic education requires a concerted effort and discipline on the part of Japan's planners for ODA. However, as in the health sector, Japan has a comparative advantage in enhancing the intellectual contribution towards basic education based on its own historical successful in this area.

Environment

In recent years, Japan has placed high priority on the environmental front, particularly since the United Nations Conference on Environment and Development (UNCED), where Japan pledged about JPY 1 trillion over a five-year period. Japan actually surpassed this target by about 40 per cent and disbursed USD 13 billion during this time frame. Projects consisted of, *inter alia*, construction of environmental centres, provision of equipment and technical co-operation for pollution control, water supply, conferences and networking facilities. Special soft loan conditions (0.75 per cent interest rate and 40-year repayment with a 10-year grace period) have been offered for these types of projects.

The Initiatives for Sustainable Development toward the 21st Century (ISD), Japan's comprehensive medium and long-term plan for environmental co-operation, was announced at the June 1997 Special Session of the United Nations General Assembly on Environment and Development. It indicates how Japan will support programmes in developing countries to address a wide variety of environmental problems including global warming, air and water pollution, waste disposal, deforestation and loss of marine and terrestrial biodiversity. The Kyoto Initiative announced in December 1997 at the Third Conference of Parties of the UN Framework Convention on Climate Change consists of strengthening environmental support to help developing countries combat global warming within the policy framework of the ISD. Both ISD and the Kyoto Initiative are being implemented with ODA.

As for incorporating environmental considerations in individual projects, particularly in economic infrastructure, OECF has established environmental guidelines, taking into account those of other donors such as the World Bank. JICA also has similar guidelines. The area where Japan could make

a stronger contribution is in environmental economic and policy analysis and dialogue. Many of the environmental problems affecting developing countries have structural causes embedded in their socio-economic and political systems. In countries where Japan's development co-operation plays an important role, Japan could build on the consideration accorded its ODA programmes and on the constructive partnerships established in the context of the country strategies and sectoral programmes to step up its analytical contributions and to strengthen policy dialogue to include sensitive environmental issues.

Water and sanitation

Assistance towards water supply and sanitation has taken up about half the share of social sector allocation, partially attributable to construction of large urban water supply and sewerage facilities and support for research institutions. Between FY1992-96, Japan provided JPY 8.2 billion (an estimated USD 630 million) for this sector, and in FY1997, aimed to support the provision of safe water to 20 million inhabitants. There has been a remarkable increase in recent years of projects for rural water supply and irrigation projects. Japan acknowledges that lack of access to safe water is one of the major causes of high infant mortality rates: therefore targeting rural poor areas where the shortage is more acute will be increasingly in line with the alleviation of "suffering from poverty", as set out in Japan's ODA Charter. A more active approach in policy dialogue with recipient countries regarding user fees and cost recovery for urban and industrial use could contribute to the shift of resources that would help ensure better access of water by the rural poor (see China report - Annex II).

Basic human needs

In general, Japan's support towards the social sector would benefit from an intensified discussion to define clearly projects that are directed towards "basic human needs" -- whether higher education, tertiary health, and urban water supply and sewerage projects technically qualify, as opposed to basic education, primary health, and rural water supply and sanitation projects. Furthermore, throughout the social sector, the quality of Japan's aid projects would be greatly enhanced by defining the target group, setting of clear objectives, and instituting a system that would monitor and evaluate the impact of the projects during implementation and after project completion, particularly in light of the IDS.

Poverty

The ODA Charter states that "many people are still suffering from famine and poverty in developing countries". However, neither the Charter nor any other official document clearly defines poverty, poverty reduction, or who the poor are; nor do they elaborate on the options of targeting poverty directly versus a "trickle-down" through support to economic infrastructure. In recent years, however, there have been special studies commissioned by MOFA in connection with poverty reduction, and a guidebook on poverty has been produced by JICA in 1994. This guidebook, which is used in JICA staff and expert training, is not a strict guideline, but summarises points to be heeded in formulating and implementing projects. It highlights the need to consider poverty issues in all JICA activities, and the importance of targeting, carrying out social analysis, and enhancing local participation in poverty reduction related activities. As for OECF, to date, no guideline nor handbook has been prepared specifically to deal with poverty reduction. However, a new *Handbook for Social Dimensions* is to be completed shortly for consideration of social aspects and social analysis, in which issues that are closely linked to poverty reduction and beneficiary participation are included. The handbook will be used by OECF staff as practical reference to daily operations. OECF has also gradually expanded its SAF scheme to enable analysis on social and gender aspects and institutional capacity at grassroots

levels as well as the establishment mechanisms that are essential for poverty reduction-related activities, such as increasing beneficiary participation. Overall, the monitoring and evaluating poverty alleviation efforts are still weak in the Japanese aid programme. It is hoped that, the new monitoring system to be established in the seven target countries for implementing the new IDS will eventually be mainstreamed throughout the entire Japanese ODA system.

Gender equality

Japan officially stepped up its focus on gender issues in 1995: it endorsed the DAC *Gender Equality Statement* and, at the UN Fourth World Conference on Women held in Beijing, announced its "Initiative on Women in Development" in addition to signing the *Beijing Declaration and Platform for Action*. During this year, it also established a significant Japan-WID Fund as a cost-sharing arrangement with United Nations Development Programme (UNDP). Total contributions equal USD 7.9 million for 1995-98, which is a relatively significant amount for UNDP. The fund has focused on the empowerment of women mostly through economic development, poverty reduction, micro-enterprise development schemes, and education. UNDP is responsible for programming and co-ordination of projects in consultation with Japan. Members of the DAC Working Party on Gender Equality have found this input helpful to promote gender equality and encourage its continuation. Japan also co-ordinates with bilateral donors on gender issues. For example, the "US-Japan Common Agenda for Co-operation in a Global Perspective" is aimed at promoting girls' education projects and support to women entrepreneurs. Japan recognises that other bilateral and multilateral donors have additional expertise in the domain of gender equality. Therefore, further participation in co-ordinated efforts is a good way for Japan to contribute to the gender-related goals in the IDS, particularly in increasing girls' enrolment in primary and secondary schools.

Attention to WID/gender equality within the Japanese bilateral aid system is directed towards three priority areas: economic and social participation, education and health. Since 1995, WID/gender aspects have been incorporated into the formulation and implementation of an increasing number of projects. WID/gender profiles have also been conducted in about 50 countries, which are presumably used in the formulation of country assistance strategies. However, there have been some difficulties in shifting from having a small number of women-focused projects to a system that incorporates the use of gender analysis across the board.

Improvements are slowly being made in the mainstreaming of gender. For example, a key evaluation was initiated by JICA in FY1998. It will review JICA's WID efforts to promote WID/gender sensitivity and recommend future steps to mainstream gender and close current gaps. It will evaluate the positive and negative gender differentiated impacts of projects in Sri Lanka, and determine the gender sensitivities of field staff and local counterparts. It will also recommend good practices to integrate and strengthen gender perspectives in JICA's evaluations. The approaches of other development partners present in Sri Lanka and active in gender issues, such as the Canadian International Development Agency (CIDA) and NGOs, such as CARE, will be discussed and lessons incorporated. As for OECF, it produced its own WID guidelines in 1991 and has further enhanced its efforts by studying the methodology of WID/gender analysis of key donors (i.e. World Bank, AsDB, and UNDP). It is also promoting WID/gender sensitivity in OECF operations based on these donors' good practices. Gender analysis/consideration is one of the most crucial aspects that is covered in the forthcoming OECF *Handbook for Social Dimensions*.

Japan is a country that has developed without achieving notable gender equality, which probably explains why it does not appear to consider the issue a priority condition for development. There was no gender specialist nor a single woman represented in the ODA Reform Council of 10 members.

Japan's weakness in terms of its own gender analytical capacity/skills mix is a key issue. Gender specialists seem to be recruited more often than previously, but are still insufficient in number in relation to the challenging goals announced in the WID Initiative, and agreed by Japan within the DAC and at the Beijing Conference. Gender sensitivity still largely depends on individual interest of staff and departments. An overall strategic gender plan, openly supported by top management and accompanied by clear incentives and training in the field would ensure that the results of gender analysis are mainstreamed and integrated into major projects and programmes (see Ghana report - Annex III). Furthermore, changes in evaluation methods towards result-oriented impact analysis would also contribute to improvements.

Governance and corruption

The ODA Reform Council Report quoted in the *1997 ODA Report* (p. 234) notes that "Japan has so far assigned relatively little weight to policy-oriented forms of aid aimed at furnishing developing countries with advice or recommendations on matters that concern institution-building or policy making". Japan has had a programme profile that traditionally devoted little towards purely governance types of interventions. The reasons could be attributed to: Japan's request-based approach; an emphasis on recipient countries' own self-help; and a reluctance and cautious attitude towards intervening in what might be considered sensitive internal affairs. Most of Japan's assistance in this field has been indirect in the field of training and institution building, some of which covers information and communications. A JICA programme called "The Co-operation to Support the Formulation of Key Government Policies" was instituted in 1995 with the objective of offering specific policy assistance to the governments of countries in transition, although the funding for this has been relatively minimal. In some cases, Japan has increased its aid as a positive incentive to countries in a process of systemic governmental transition towards democratising and introducing a market economy -- Mongolia is the leading example of this. Japan has suspended new grants (except for emergency humanitarian aid) and grassroots aid in China, India, and Pakistan, applying *ex post* its ODA Charter principle on the development of weapons of mass destruction. Furthermore, it has also reduced assistance in Kenya due to poor governance and in Myanmar due to human rights issues.

The TICAD II Conference, described in Chapter 1 above, incorporated democracy and good governance as basic foundations for development in the Tokyo Agenda for Action. There is, in fact, a well drafted menu for action for African countries and development partners in the area of governance which could be used as a reference for further work.

In the field of coherence, Japan has worked within the OECD on the Financial Action Task Force in a worldwide alliance against money laundering and has ratified the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (effective 15 February 1999). Within DAC, Japan joined in a Recommendation for Members to put anti-corruption measures in place regarding ODA procurement, particularly the inclusion of an appropriate provision in all ODA procurement contracts.

Analysis is proceeding on the Asian crisis. "Crony Capitalism" has been a target of analysis on the part of many commentators and international institutions. While this may or may not be the central point, clearly governance and corruption have been made part of the analytical equation for trying to understand the root causes of the crisis. Japan's contributions to these issues both within the ODA programme and in other coherent efforts by the government should continue. The influence that these issues have on the path of development in recipient countries is often decisive, and thus cannot be ignored.

Evaluation and effectiveness

Evaluation has been part of Japan's aid implementation cycle for many years, and evaluations are conducted at several tiers. At the level of MOFA's ECB, the Evaluation Division has existed as a separate division since 1990 to supervise evaluation activities. The Aid Evaluation Reviewing Panel, set up in 1986, serves as an advisory body on evaluation affairs, by studying evaluation frameworks, methods, and implementation plans and reviewing MOFA's *Annual Evaluation Report on Japan's Economic Co-operation*[4], published every year since 1982. In some cases, panel members conduct selected ODA project inspections and evaluations.

MOFA conducts around 150 evaluations every year, half of which are contracted out to third parties, sometimes in conjunction with recipient-country personnel. MOFA also makes a few joint evaluations with other donors. Both JICA and OECF have evaluation programmes as well, and their findings are compiled and released in separate reports by each organisation. Generally, OECF carries out project-focused and sector level evaluations related to its own activities, whereas MOFA and JICA conduct broader evaluations for many types, such as country programmes, themes, and projects. Furthermore, MOFA conducts evaluations of Japan's ODA systems.

The evaluation criteria established are: relevance, effectiveness, efficiency, sustainability, and impact, in accordance with the established DAC Evaluation Guidelines. The objectives of ODA evaluations are to:

- Examine whether Japanese ODA projects are being implemented on an efficient and effective basis.
- Apply evaluation findings to the task of improving aid project design and management, formulating future aid policies and achieving gains in ODA quality.
- Heighten the public's awareness of ODA affairs as well as accountability for results through disclosure of evaluation findings.

With respect to overall effectiveness, MOFA's *1998 Annual Evaluation Report* states that it is difficult to make broad generalisations about the findings of evaluations because they are spread across many fields. There were differences in recipient countries' stages of economic development, political systems and social or cultural settings, and in evaluation methods. The report mentions that out of 108 project evaluations which could be categorised, 79 activities were judged successful, 28 needed certain improvements, and one was unsuccessful as a whole. The report therefore deduced that Japanese ODA projects generally achieve their initial goals and help improve socio-economic development and life in developing countries. Even projects that had not achieved their initial goals by the time of the evaluation had claimed to have generally achieved results in progress. However, a serious weakness of these evaluations is that there is minimal reference to data on socio-economic impact of projects, and instead, an emphasis on the physical conditions of constructed facilities and on how much beneficiaries have appreciated the projects. Attempts to link the cause and effect of how the projects have actually improved the lives of targeted beneficiaries are notably absent in the published evaluation reports.

The Japanese aid agencies are now joining other donor countries in sharing the same concern over the issue of "aid effectiveness", and have started discussions on the subject. For example, in 1996 OECF

4. It is found at http://www.mofa.go.jp/mofaj/gaiko/oda/hyoka/index.html

took part in the study of "Aid Effectiveness", initiated by World Bank's Policy Research Department, and subsequently held several seminars in Tokyo on the subject. The outcome is reflected in the recently published report *Assessing Aid*, by the World Bank. OECF has made systematic efforts to use evaluations as a learning tool at management and technical staff levels, as well as in the field, identifying the appraisal phase of the project cycle and institutional weakness as the two most important sources of project success or failure[5].

Japanese ODA managers need to do more to bring the portfolio into harmony with the overall aims and goals of the IDS: that is, to make projects and programmes more relevant and sustainable. Evaluation should shift more from a project focus to a country, sector, and cross-cutting focus. The adoption of a country strategy approach is a major step in this effort. Based on country assistance strategies, this would imply, for example, moving more quickly towards support for public health clinics instead of urban hospitals that are all too often costly and not as relevant in a poverty-oriented strategy or a broad-based primary health care programme; more support towards primary education rather than universities which are also costly and of little relevance to the poor; and the avoidance of the provision of high technology equipment, infrastructure or services that cannot be maintained or sustained (see Ghana report - Annex III).

As the *1998 Annual Evaluation Report* points out, there is need to give "more thought to local technology levels when selecting equipment". This report in fact sets out the procedures in creating a more effective evaluation system and emphasizes the additional steps necessary, namely broadening the scope or focus of the evaluation process. The recommendations by the Council on ODA Reforms also imply that evaluations need broader, more diversified perspectives, and that stronger efforts are needed on feedback and learning issues, in particular to reflect findings in future aid policies and projects. Building on country studies, the evaluation process needs to be sharpened and the quality of evaluations themselves needs to be bolstered, particularly with respect to relevance, appropriateness and sustainability. The process should also give more attention to cost effectiveness and socio-economic impact as these would contribute to improving the effectiveness and quality of the ODA programme. Increased participation from other donors may be a way to improve methods of evaluation and to incorporate wider views concerning effectiveness. As Japan "desires to occupy an honourable place in international society", effectiveness in reaching the "many people (who) are suffering from famine and poverty", as it sets out to do, is ultimately the surest way it could fulfil this through its ODA programme.

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5. *Lessons Learned from the OECF Post-Evaluation – Abstract*, 18 September 1997 by Shinya Ejima and Katsuhiko Nakadate, Research Institute of Development Assistance, OECF Japan.

CHAPTER 4

POLICY COHERENCE

Introduction

This chapter addresses the coherence between Japan's development assistance objective to integrate developing countries into the global economy and its trade and investment regime. In particular, it will discuss some important sectors to potential exporters of developing countries where Japan, along with other OECD Members, could consider more generous market access, which may also benefit domestic consumers.

Institutional framework

In Japan, formulation of trade policies involves ministries such as MOFA, Ministry of International Trade and Industries, MOF and the Ministry of Agriculture, Forestry and Fisheries, as well as the Economic Planning Agency and the Japan Fair Trade Commission. Jurisdiction for issues related to trade in services is also shared with sectoral ministries, including Ministry of Posts and Telecommunications, Ministry of Transport, Ministry of Construction and Ministry of Justice. Ministry of International Trade and Industries, MOF and Ministry of Education are in charge of trade-related intellectual property rights. Foreign direct investment (FDI) is governed by the 1949 Foreign Exchange and Foreign Trade Law (amended in 1998) supplemented with Cabinet and ministerial orders.

Policy coherence is sought both at the Cabinet level and through a number of fora under the direct responsibility of the Prime Minister. These include the Cabinet Secretariat Council's Offices on Internal and External Affairs, the Ministerial Conference for Economic Measures, the Trade Conference, the Office of Trade and Investment Ombudsman and the Japan Investment Council. In addition, a number of government-affiliated advisory councils are also involved in achieving consensus for government policies. The most important permanent councils dealing with trade-related issues are the Economic Council, the Customs Tariff Council, and the Industrial Structure Council.

Trade patterns

In the 1990's, Japan's investment and trade flows became increasingly focused on Asia, and more specifically towards East Asia. To a large extent, this focus reflects the relocation of numerous Japanese manufacturing firms to neighbouring East Asian countries in order to take advantage of low production costs. As overseas production by Japanese-owned firms increased, Japanese trade with these East Asian countries intensified based on a new "division of labour".

During this period, the pattern of Japan's imports from developing countries have become more geographically pronounced. Asian developing countries are now the main source of Japan's imports of

"low-tech", intermediate, and intra-firm manufacturing goods; Latin American and African countries account for the bulk of Japan's agricultural and mining imports; and imports from the Middle East are predominantly fuels (Table 4). Not only has the geographic pattern of Japan's trade changed during the 1990, the composition of imports has also altered. In line with developments in other OECD economies, the relative importance of agriculture, mining and fuels in total imports has declined, while imports of manufactures and services have increased. This shift in demand has reinforced Japan's trade focus on Asia. A further breakdown of Japan's trade with developing countries by income group reveals that, in general, Japan's trading relations with LLDCs are extremely minor and have become of much less importance than for OECD countries as a whole, excluding Japan (Tables 5 and 6).

Table 4. **Commodity breakdown of Japan's merchandise trade by geographic region: 1997**

Product categories as a per cent of world total

		Agriculture	Mining	Manufactures	Machinery/ transport	Textiles	Clothing
Asia	***Exp***	73	79	44	39	74	56
	Imp	38	37	46	41	72	82
Latin America	***Exp***	1	1	3	1	4	1
	Imp	8	6	1	1	1	<1
Africa	***Exp***	1	<1	1	1	1	<1
	Imp	2	3	<1	0	<1	<1
North America	***Exp***	14	13	30	33	9	19
	Imp	39	6	29	37	7	5
EU	***Exp***	9	5	16	21	17	9
	Imp	8	1	21	20	17	12
World	***Exp***	100	100	100	100	100	100
	Imp						

Source: WTO.

Table 5. **Share in Japan's total trade imports**

Imports	**1990**	**1995**	**1997**	**Exports**	**1990**	**1995**	**1997**
LLDCs	0.7	0.6	0.5	LLDCs	1.0	0.8	0.5
OLICs	6.5	12.6	14.3	OLICs	3.6	6.4	6.5
*OLICs**	*0.8*	*1.0*	*1.2*	*OLICs**	*0.9*	*0.8*	*0.8*
LMICs	11.1	10.3	10.9	LMICs	8.6	11.3	11.1
UMICs	11.1	10.2	11.1	UMICs	5.4	7.0	7.1
HICs	0.1	0.1	0.1	HICs	0.1	0.0	0.0

* Excluding China and India.

Source: OECD.

Table 6. **OECD trade (excluding Japan) with LDCs by income group: 1990, 1995**

Imports	1990	1995	Exports	1990	1995
LLDC	9.4	10.9	LLDCs	17.5	15.8
OLIC	21.7	18.0	OLICs	24.3	18.2
*OLICs**	*6.7*	*9.1*	*OLICs**	*16.1*	*12.0*
LMIC	21.2	21.1	LMICs	21.9	29.2
UMIC	19.3	14.2	UMICs	16.5	15.0
HIC	23.2	16.1	HICs	5.6	4.1

* Excluding China and India.

Source: OECD.

Market access for developing countries

Japanese market access policies are characterised by, though sometimes uneven, gradual progress towards reducing border barriers and reforming the regulatory framework. Tariff reductions agreed under the Uruguay Round, as well as other non-Uruguay Round related tariff changes have resulted in an overall simple applied tariff average of 9.4 per cent for all imports in 1997. The average applied tariff for agricultural products is 26 per cent and for manufactured products 4.9 per cent. However, progress has tended to lag in sectors of special interest to lower income developing countries -- agriculture, textiles, clothing, footwear, and certain commercial service sectors such as construction. For these sectors, market access is constrained both by border and non-border measures[6].

Agriculture

Agricultural products continue to be an important part of Japan's total imports, reaching 19 per cent in 1997[7]. At the same time, the agricultural sector in Japan is protected by high tariffs, regulatory barriers and various forms of support, well above the OECD average[8]. Although the share of the domestic agricultural sector has been shrinking from 2.5 per cent of GDP in 1990 to 1.4 per cent in 1995, transfers to the sector have consistently been larger than the value of agricultural output. In the Uruguay Round, Japan agreed to convert all import bans and quotas (except for rice) to tariffs, at an average level of 26 per cent. Japan's tariff schedule also includes a significant number of specific duties, sliding duties, and alternative duties (and some seasonal duties) primarily for the purpose of offering a consistent level of protection to domestic agricultural products in the face of international price fluctuations or sudden surges in low-price imports. Tariffs on above-quota imports, agreed on in the Uruguay Round Agreement, remain prohibitively high, as in other OECD Members, resulting in minimal above quota imports for these product categories. For example, quotas are almost completely filled and tariffs reach 923 per cent for konnyaku tubers and 782 per cent for groundnuts, which are potential export products for some developing countries[9].

6. http://www.wto.org/wto/reviews/tprb6q.htr

7. http://www.wto.org/wto/reviews/tprbg.htr

8. OECD (1998), *Agricultural Policies in OECD Countries*, Paris.

9. *Ibid*.

In the context of the WTO Agricultural Agreement, Japan agreed to bind tariffs on all agricultural products and to reduce bound rates by an average of 36 per cent during the period 1995-2000. Even after full implementation of these tariff cuts, however, imports of many food and beverage products of interest to developing countries will still face high tariffs in relation to industrial tariff levels. As is the case for other OECD Members, tariff escalation is notable between semi-processed and fully-processed items in food manufacturing[10].

Imports of rice, wheat, barley, skimmed milk powder, butter and raw silk are handled by state trading entities. Since April 1999, Japan has opened up its rice market to limited quantities of imports. Total rice imports increased to some 4 per cent of domestic consumption in 1995. The target is to raise this to 8 per cent by the year 2000. However, the above quota tariff will raise the price of major types of imported rice, bringing it to the price level for domestic brands. Imports of some varieties of fresh fruits, vegetables, and other primary products are banned due to concerns about entry of pests or plant diseases. Other imports of primary products are required to undergo lengthy scientific research and testing or on-site inspections before they are allowed entry under a phytosanitary protocol[11].

Fisheries

Japan is the world's fourth largest fishing nation, after China, Peru and Chile, and accounts for 6.7 per cent of world catches. Fish and fish products account for a relatively important share of Japan's total imports, reaching 5 per cent in 1997. However, Japan applies non-tariff measures and domestic support measures in the fisheries sector. For example, Japan maintains nine global and two bilateral import quotas on fish products. Exporting countries have argued that the administration of these quotas lacks transparency. Japan has therefore initiated a deregulation action programme that includes measures to improve the clarity of the quota system.

In order to maintain it's domestic fishing industry, the Japanese government provides various forms of domestic support, amounting to JPY 375 billion (approximately USD 3 billion). As for foreign fisheries assistance, USD 100 million was spent in FY1997[12]. Japan has bilateral Fisheries Agreements with China, Kiribati, the Solomon Islands, Marshall Islands, Tuvalu, South Africa, Morocco and Senegal, as well as with several developed countries. The Japanese Fishing Agency encourages the formation of joint ventures between Japanese fishing companies and governments of Pacific Island and other countries. These joint ventures allow the Japanese fishing industry to maintain its presence in key fishing areas.

Manufactured products — Footwear and Textiles

In 1997, manufactured products accounted for 60 per cent of total imports. In general, manufactured goods of particular interest to lower income developing countries, such as textiles, clothing and footwear, continue to be constrained by both non-border and border measures. For example, applied tariff rates in 1997 were highest for footwear (43 per cent), silk (30 per cent) and various leather products and apparel (13 per cent). The bound rates, to be applied in 2000, will still be highest for footwear (32 per cent), silk (8 per cent), and various leather products and apparel (around 10 per cent).

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10. *Ibid*.

11. WTO (1998), *Trade Policy Review Japan*, Geneva.

12. World Bank (1998), *Subsidies in World Fisheries: A Re-examination*, Washington DC.

Besides tariffs, Japan also maintains a quota system that limits the import of footwear to around 12 million pairs per year. Additional imports above the quota are effectively discouraged through tariffs of 48.8 per cent or JPY 4 613, whichever is higher. Although the above-quota tariff rate is to be lowered, the yen minimum alternative rate is applied in a manner that negates the effect of the tariff rate reduction. Besides these trade restrictions, Japan assists domestic producers in these sectors through various support measures, consisting of direct and indirect subsidies, as well as tax exemptions.

Asia provides a dominant and growing share of Japanese imports of textiles and clothing, reaching 72 per cent and 82 per cent, respectively in 1997. China alone provided 33 per cent of textile imports and 63 per cent of clothing imports. Imports of textiles and clothing from Latin America and Africa are extremely small, amounting to less than 1 per cent of Japan's imports of these products in 1997.

Japan was the only net importer of textile products that did not impose any quantitative restrictions under the previous textile import regime, i.e. the Multi-Fibre Agreement. As for the current situation, market access to Japan will be limited for both exporters within and outside the quota regime until 2005 when the subsequent WTO Agreement on Textiles and Clothing abolishes all quantitative trade restrictions on textiles and clothing. Although applied tariffs have been eliminated on in-quota imports of silkworm cocoons, raw silk, silk yarn and jute yarn since 1995, Japan still employs an import quota system for silk products. Furthermore, volume-based special safeguards have continued to be invoked for raw silk[13]. In particular, the Japanese Government establishes annual trade levels for silk product imports with the Governments of China and Korea. In the case of Korea, a 10-year phase-out programme has been notified to the WTO. A similar procedure will be followed with China, once it has acceded to the WTO.

The Generalised System of Preferences

Japan's Generalised System of Preferences (GSP) scheme was extended in 1991 for another 10 years. The extension did not change the scheme's overall framework but expanded the objectives and the beneficiary countries. GSP tariffs are currently applied to on average 10 per cent of Japan's imports from developing countries. Five Asian countries account for three-quarters of GSP benefits: China, Korea, Chinese Taipei, Thailand and Malaysia. For products covered by the GSP, however, the benefits to exporting countries (tariff preference margins) have declined because of the reductions in applied tariffs for Most Favoured Nations. Furthermore, in April 1998, Japan announced the decision to remove GSP benefits from imports of 122 items from Korea, Chinese Taipei, Singapore, Hong Kong and New Caledonia.

With regard to the market access for imports from the LDCs, Japan applies zero tariff for more than 80 per cent of items in which the countries take interest. Furthermore, Japan offers duty free entry and preferential import exemption from ceiling restrictions for all imports from the LDCs covered by the GSP scheme. On the other hand, the benefits for LDCs are limited as a number of their products continue to be excluded from GSP benefits or are subject to binding ceiling quotas. The products excluded from the system tend to be those for which applied tariffs are highest and tariff escalation most severe. Product exclusions include, for example, meat, dairy products, most vegetables, cereals

13. WTO (1998), *Trade Policy Review Japan*, Geneva.

and some silk and cotton yarns and fabrics. Binding ceiling quotas are applied on wood, wood articles, leather articles, footwear, electrical machinery, and equipment[14].

Investment

Flows

Japanese affiliates in East Asia play a crucial role in the trade and investment flows between Japan and other East Asian countries. To mitigate the effects of the high value of the Yen in the early 90s, many large trading companies shifted segments of their operations to neighbouring low cost developing countries. These affiliates brought with them skills and green field investments that promoted significant trade capacity in the region. However, due to the Asian crisis and the recession in Japan, outward investment for 1998 declined compared with 1997 -- first time in five years. According to a survey, about 80 per cent of Japanese firms that have affiliates in the ASEAN region responded that their affiliates have been adversely affected by the crisis, especially those with sales oriented towards local domestic markets. Particularly due to the substantial currency depreciation in these economies, resident Japanese affiliates have become seriously indebted. Between 30 per cent and 50 per cent of the loans from Japan's 18 major banks to Asian countries are in fact extended to Japanese-owned local entities. These loans are classified as being at high risk of becoming large-scale “write-offs”. Many parent companies have consequently adopted a strategy to provide overseas affiliates with financial assistance and other support measures. Furthermore, special ODA loans tied to Japanese procurement and other measures to respond to the Asian crisis have helped convince Japanese firms to maintain the ASEAN region as a priority investment destination.

In other regions, Japanese FDI flows to Latin America remained stable during the last decade, amounting to on average, USD 4.3 billion per annum. Investment has targeted steel for automobile production (Brazil) and mining (Chile and Argentina). Japan's FDI flows to the Middle East and Africa, though considerably below the amount to Latin America, have gradually increased between 1992-96, reaching USD 238 million and USD 431 million, respectively in FY1996. Leading investment destinations in the Middle East include Turkey (manufacturing) and in Africa, Nigeria (petroleum and mining) and South Africa (automotive).

Policies

Investment policies are formulated on three different levels: for all countries across the board, on a regional basis, and for individual countries. Japan considers investment as essential for economic growth of developing countries, particularly through the creation of trade capacity. To promote productive FDI in developing countries, some support is provided for "soft infrastructure" (reforming legal and administrative systems for investment, competition policy, and intellectual property regimes) and for "hardware" (provision of private-sector technology and environmental conservation equipment). According to Ministry of International Trade and Industries, the transfer of design and product development functions to developing countries, particularly in Asia, is well in progress. Japanese firms have bolstered local production capacity, increased exports of parts and machinery from Japan to the region, and boosted exports from Japanese affiliates to Japan. According to MOFA, Japan is also pursuing a policy of actively promoting stability and development, for example, in Latin America. Plans have been announced to set up investment centres to assist private companies in

14. *Ibid*.

formulating investment strategies for the Mercosur region. Ministry of International Trade and Industries is also considering providing technical assistance to private companies in Argentina, including the dispatch of management advisors.

Conclusion

With the prolonged economic recession in Japan and the sharp and deep economic set-back in some developing countries, notably in East Asia, the coherence between Japan's aid, investment and market access policies becomes even more important. When Japan, or other OECD countries, restrict access to their markets in areas where low-income countries have a comparative advantage, the possibilities for developing countries to attain an export-led growth and be integrated into the global economy would become constrained. Accelerating the removal of protection around sectors of primary interest to lower income developing countries would not only help the developing world, but would simultaneously help create a more competitive market in the Japanese economy.

CHAPTER 5

BASIC PROFILES

ODA volume

Japan continued to be the largest bilateral donor for 1997 with net ODA disbursement recording USD 9.4 billion (JPY 1.1 trillion) (see Annex Table VII-1). Japan's ODA disbursements declined from a peak of USD 14.5 billion in 1995, although the drop was partially attributable to the fall of the yen against the dollar. During the last ten years, the annual share of Japanese ODA in total DAC disbursements has fluctuated between 15 per cent and 25 per cent, and after the high point in 1995, was 19 per cent in 1997. In terms of *per capita* ODA, Japan's USD 75 ranked 11th of 21 DAC Members (ranging from USD 337 in Denmark to USD 22 in Portugal). Japan remains by far the leading bilateral donor for FY1998.

Although medium-term target setting was abandoned following the expiration of the Fifth Medium-Term Target (1993-97), and further reductions to the FY1999 and FY2000 ODA budgets had been announced, these cuts were subsequently frozen. It is also anticipated that, despite the economic situation, Japan will be able to maintain the level of ODA volume for the time being. Furthermore, the JPY 600 billion Special Yen Loans to assist Economic Structural Reform (about USD 5 billion) will be additional to the normal ODA budget.

Japan's ODA share as a per cent of GNP has generally been slightly below DAC average in the past decade, but equalled the DAC average of 0.22 per cent for 1997 (see Table VII-6). This is well below the UN target of 0.7 per cent and places Japan at 19th amongst 21 DAC donors, trailed only by Italy and the United States.

Contribution to multilaterals

Japan is the largest or second largest contributor to many multilateral institutions. For example, it is the leading donor for UNDP, UNFPA, UNESCO, AsDB, and the African Development Fund (AfDF), and second largest for the Food and Agriculture Organization (FAO), the United Nations High Commissioner for Refugees (UNHCR), United Nations Environment Programme (UNEP), the International Atomic Energy Agency (IAEA), WHO, the World Food Programme (WFP), the United Nations Works and Relief Agency (UNWRA), and the World Bank. Japan's annual contribution to multilateral institutions fluctuates depending on the replenishment cycle of MDBs. In 1995, the disbursements amounted to USD 4.1 billion, decreased to USD 1.2 billion in 1996, and increased to USD 2.8 billion in 1997, which consisted of USD 690 million for UN and other non-lending international organisations and USD 2.1 billion for contributions to MDBs. Japan's share of annual gross disbursements to multilateral institutions as a percentage of ODA has generally been lower than DAC average when EC contributions (for ODA operations) are included, but higher than DAC

average when they are excluded. For example, in 1997, Japan's multilateral aid was 30 per cent of ODA while DAC average including EC contributions was 33 per cent and excluding was 23 per cent.

Japan acknowledges that development assistance through international organisations complements Japan's bilateral assistance, as it has many advantages. International organisations have more expertise, experience, global networks, and human resources, and can provide assistance to those countries and areas where Japanese ODA has difficulty reaching, for example, countries and regions where no Japanese Embassy exists, refugees in conflict areas, and the areas of narcotics and global environmental problems.

Within Japan, the affairs of UN and other non-lending international organisations are administered and funded by MOFA, and those of International Financial Institutions (IFIs) are co-ordinated and funded by MOF. In the past, there was limited co-ordination and informational exchange between the two ministries on the affairs of international organisations. However, the situation has significantly improved in recent years, particularly since the law on administrative reform clearly requires MOFA and MOF to strengthen collaboration regarding international organisations. Moreover, as UN agencies and MDBs are also working more closely in a number of common areas and programmes, the necessity and opportunity to collaborate further has increased. Therefore, Japan is currently working out detailed measures for further improvements in this area.

A point of concern to Japan is that compared to its current levels of financial support, the presence of Japanese nationals on the staffs of multilateral aid agencies is limited. For example, although Japan contributes 21 per cent of the share of contributions to IDA, Japanese nationals represent less than 2 per cent of World Bank's permanent staff; and with contributions to the UN system as a whole approaching 25 per cent of the UN budget, Japanese nationals represent 4 per cent of UN Secretariat's regular staff.

Main categories of the programme

Instruments

In Japanese ODA, the proportion of loans in gross disbursements has been higher than DAC average, though it has been declining. From levels of more than 50 per cent until 1994, it was 48 per cent in 1996, and dropped significantly to 38 per cent in 1997, compared to the DAC average of 15 per cent (see Table VII-2). As for technical co-operation, it has slightly increased as a percent of gross disbursements in 1993-97 to remain at 16 per cent, though the share has been consistently lower than DAC average, which was 23 per cent in 1997.

Geographical distribution

The ODA Charter clearly states the preference of Japanese aid towards Asia. This position has not changed much in the last two decades, shown in the trend of gross disbursements to the region: in 1976-77, Asia received 73 per cent of Japanese bilateral ODA, 72 per cent in 1986-87, and 69 per cent in 1997 (see Table VII-3). Within Asia, there is an increase in recent years for support towards Central Asia. ODA to Oceania has also steadily increased in the past two decades. Sub-Saharan Africa received 6 per cent of Japanese bilateral ODA in 1976-77, 11 per cent in 1986-87, and remained at 13 per cent in 1997. Latin America received 11 per cent in 1997.

The annual top five recipient countries of Japanese bilateral ODA have not changed substantially in the past decade, namely Indonesia, China, Thailand, India, and the Philippines (see Table VII-4). In 1996-97, among 158 recipients, Indonesia and China received USD 1.2 billion or 13 per cent and USD 1.0 billion or 10 per cent of annual gross bilateral aid disbursements, respectively. In Sub-Saharan Africa, the top three countries in 1997 were Ghana, Kenya, and Tanzania; and in Latin America, they were El Salvador, Bolivia, and Brazil.

In 1996, Japan was the top bilateral donor to a total of 47 countries (11 in Africa, 17 in Asia, 11 in South America and 8 in other regions). In this respect, Japan has to be mindful of the size of its aid programme, which can easily overshadow other donors. Its ability to flexibly provide large amounts of aid funds makes Japan a uniquely powerful donor in situations that require a large resource commitment. Japan's move towards a country strategy approach can help ensure that its programme is in partnership and in step with broad strategic consensus of recipient countries and of other donors.

Income distribution

The trend in the allocation according to country income groups shows that Japan has consistently provided more support towards lower middle-income countries, followed by other low-income countries, and then least developed countries. In 1997, the distribution stood at 43 per cent, 32 per cent, and 15 per cent, respectively, in gross disbursement terms (see Table VII-3). This parallels the geographical distribution, as many of the Asian countries fall under the category of lower middle-income countries and the Sub-Saharan African countries are under least developed countries. There has also been a continuous increase in support to upper middle income countries in gross disbursement terms from 4 per cent in 1993 to 9 per cent in 1997. The breakdown according to instruments within regions shows that of the net ODA disbursements to Asia, 27 per cent was grants, 34 per cent was technical co-operation, and 38 per cent was loans, whereas for Africa, they were 65 per cent, 26 per cent, and 9 per cent, respectively.

Sectoral distribution

As for the sectoral distribution, Japan's contribution was clearly directed towards economic infrastructure which stood at 45 per cent in 1996-97, compared to the DAC average of 26 per cent (see Table VII-5). In comparison, its support to the social sectors consisted of 22 per cent, as opposed to 30 per cent DAC average. As mentioned earlier, further breakdown suggests that total support for basic health and education was just 2 per cent. Furthermore, support for water and sanitation included urban water/sewerage projects and related research, in addition to support for rural water supply and sanitation. The production sectors, which include agriculture, forestry, fishing, industry and so on, accounted for 18 per cent which was above DAC average of 13 per cent.

Tying and procurement

Japan began untying ODA loans in the late 1970s, and no fully tied loans have been extended since 1988. In recent years, the ODA loan programme, implemented by OECF, could be termed virtually untied, with procurement through international competitive bidding (ICB) under the responsibility of the recipient country. On a case-by-case basis, some partially untied loans are provided essentially on recipient request, but these instances have progressively declined and all but disappeared in 1996 and 1997. However, in the context of the Asian crisis, the Special Yen Loans to assist economic structural reform (JPY 600 billion -- an estimated USD 5 billion) to be disbursed starting FY1999 will be tied, while remaining in accordance with OECD rules.

Since 1991, the percentage of procurement in ODA loan-funded corporate contracts has not varied greatly. In 1997, 41 per cent of contracts were won by Japanese companies, 17 per cent by other OECD countries and 42 per cent by developing countries, looking at the foreign currency portion of contracts signed. Whether contract-winners in developing countries themselves may have been Japanese subsidiaries or affiliates is a question sometimes raised, but the latest data available shows that it was not the case[15]. Field missions confirmed that OECF projects were financing non-Japanese contractors and were appreciated by recipient and other DAC Member countries.

Grant procurement is effected through Japanese firms (such as trading companies), but is not limited to Japanese goods and services, and MOFA-implemented grant assistance is reported as largely untied. Non-project grant aid is untied. JICA-implemented technical co-operation is normally tied. The procurement procedure and contract information related to ODA loan is already fairly open, Japan will be making all procurements under both grant aid and loans more transparent with information on bidders and procurement contracts to be provided to the public (see Annex V). As the leading bilateral donor with a substantial proportion of its aid already untied, Japan's position on untying ODA to the LDCs will be important in making a significant step towards multilateral untying.

Debt relief

Japan is a major official creditor to developing countries. At the end of 1997, the stock of ODA debt owed to Japan was over USD 70 billion, nearly half of the total ODA debt owed by developing countries. In addition, Japan is a major creditor on account of its non-concessional official lending and guarantees, notably in the field of export credits. Three-quarters of the stock of ODA debt and similar proportions of other categories of official loans are owed by countries in Asia. It may be noted that low interest rates on the yen have meant that commercial terms on Japanese loans have been more favourable than for those of any other major creditor. With such large amounts in question, Japan has been called on to take an active role in many aspects of debt relief, both within the Paris Club and bilaterally.

Japan's position on ODA debt is based on the country's own post-war development, as mentioned earlier. Japan repaid all its World Bank and other loans and therefore strongly believes in the ideas of "self-help efforts" and discipline and that the integrity of a nation is at stake in repaying what it has borrowed from others. Japanese officials would consider it a "moral hazard" if the recipient country obligations were to be simply forgiven. Therefore, it has sought creative ways to lessen the burden for countries that are incapable of repayment, while at the same time helping them to fulfil their responsibilities as sovereign states. Thus, instead of cancelling loans outright in its debt relief actions, Japan chooses debt service reduction options within the Paris Club, often with low interest rates over a long maturity schedule, to reduce the present value of loans. Under Naples terms and Lyon terms, it has reduced the present value of debt to the percentage applicable through solutions which take account of national constraints. These arrangements lead effectively to a reduction of repayments.

Japan has been intensifying its efforts in recent months with regard to debt relief. For example, Japan announced substantial new schemes to relieve HIPC's (highly indebted poor countries) debt service which will have an effect equivalent to debt cancellation. In other words, Japan will reduce future interests on rescheduled loans to debtor countries qualifying for the HIPC Initiative, with a new scheme to allow such countries to receive grant aid when they make repayments after the project completion point. The grant aid will cover interest payments during the grace period, and 80 per cent

15. *Survey on Japanese Yen Loans: Local Contractor Study*, November 1994.

of the interest and principal during the repayment period. The cumulated effect of these measures will be equivalent to debt cancellation of over 80 per cent. In addition, at a time of economic and fiscal difficulties, Japan has made substantial contributions to the World Bank's HIPC Trust Fund and the IMF's Enhanced Structural Adjustment Facility (ESAF)-HIPC Trust Fund to assist countries to pay amounts due to multilateral organisations.

Japan's bilateral actions have mainly involved offering grant aid for debt relief to poorer countries, a scheme introduced in 1978. Japan now provides grants equivalent to the whole amount or a part of the repayment of debt service due on loans agreed upon in or before FY1987 by 20 LLDCs[16], loans agreed upon in FY1988 to FY1997 by Mali and Zambia, and loans agreed upon in or before FY1978 by six Most Seriously Affected Countries. These are normally renewed annually, although in the case of Afghanistan, grants were suspended. In FY1997, grants worth USD 233 million were committed to 14 countries to cover interest and principal due to Japan. The major beneficiary was Bangladesh, with grants amounting to USD 156 million. Other countries included low-income countries in Asia and six African LLDCs.

16. For Guinea, Malawi, Mauritania, Tanzania and Uganda, loans agreed upon from FY1988 to FY1997 are also covered by this scheme.

ANNEX I

EXCERPTS FROM JAPAN'S OFFICIAL DEVELOPMENT ASSISTANCE CHARTER ADOPTED BY THE CABINET IN 1992

In order to garner broader support for Japan's Official Development Assistance (ODA) through better understanding both at home and abroad and to implement it more effectively and efficiently, the Government of Japan has established the following Charter for its ODA.

Basic philosophy

Many people are still suffering from famine and poverty in the developing countries, which constitute a great majority among countries in the world. From a humanitarian viewpoint, the international community can ill afford to ignore this fact.

The world is now striving to build a society where freedom, human rights, democracy and other values are ensured in peace and prosperity. We must recognise the fact of interdependence among nations of the international community that stability and further development of the developing world is indispensable to the peace and prosperity of the entire world.

Environmental conservation is also a task for all humankind, which all countries, developed and developing alike, must work together to tackle.

It is an important mission for Japan, as a peace-loving nation, to play a role commensurate with its position in the world to maintain world peace and ensure global prosperity.

Bearing these points in mind, Japan attaches central importance to the support for the self-help efforts of developing countries towards economic take-off. It will therefore implement its ODA to help ensure the efficient and fair distribution of resources and "good governance" in the developing countries through developing a wide range of human resources and socio-economic infrastructure, including domestic systems, and through meeting the basic human needs, thereby promoting the sound economic development of the recipient countries. In so doing, Japan will work for globally sustainable development while meeting the requirements of environmental conservation.

Such assistance is expected to further promote the existing friendly relations between Japan and all other countries, especially those in the developing world.

Principles

Taking into account comprehensively each recipient country's requests, its socio-economic conditions, and Japan's bilateral relations with the recipient country, Japan's ODA will be provided in accordance with the principles of the United Nations Charter (especially sovereign equality and non-intervention in domestic matters), as well as the following four principles:

1. Environmental conservation and development should be pursued in tandem.

2. Any use of ODA for military purposes or for aggravation of international conflicts should be avoided.

3. Full attention should be paid to trends in recipient countries' military expenditures, their development and production of mass destruction weapons and missiles, their export and import of arms, etc. so as to maintain and strengthen international peace and stability, and from the viewpoint that developing countries should place appropriate priorities in the allocation of their resources on their own economic and social development.

4. Full attention should be paid to efforts for promoting democratisation and introduction of a market-oriented economy, and the situation regarding the securing of basic human rights and freedoms in the recipient country.

ANNEX II

CHINA REPORT

Introduction

To prepare for the DAC Review of Japan in April 1999, the United Kingdom Examiners and the Secretariat undertook a mission to Beijing, China, from 17-21 November 1998 on their way to Tokyo. Persons met and projects visited are listed in Appendix I.

China's challenges in development

China, with a population of approximately 1.2 billion, has sustained an impressive growth performance since 1978. Its gradual transition from a centrally-planned to a market-based economy and from a rural-agrarian society to an urban-industrial one is still on-going.

High growth and social change have been accompanied by difficult new challenges, such as employment insecurity and growing inequality. According to the World Bank, 270 million Chinese still survive on less than one USD a day, which is more than in all of Sub-Saharan Africa. There are also mounting environmental pressures. China's air and water are among the most polluted in the world. Incomplete reforms in state-owned enterprises and in the financial sector are generating macroeconomic vulnerabilities.

The human development record in China is notable. The demographic transition from high fertility and mortality to low fertility and mortality is now approaching the levels of developed countries. Life expectancy at birth now exceeds 70 years and many health indicators have improved well beyond the global average. The illiteracy rate has also been reduced to 12 per cent, although female educational levels lag behind those of males. These positive human development indicators, however, hide substantial regional and local disparities. And while China has a remarkable record in poverty reduction, this still remains a major issue for China, not only in remote rural areas but also including the growing number of the urban poor.

The transition to a market-based economy has been accompanied by growing regional inequality, particularly in personal incomes. Income grew slowly in many parts of rural China, while cost-sharing for health care and basic education increased. The poorest often could not afford to send their children -- notably girls -- to school, nor receive preventive and peri-natal health care. To overcome the regional disparities in the health and educational status will require well targeted programmes that incorporate participatory approaches for the rural poor.

An overview of external aid to China

In 1995/1996, development finance and external aid to China from multilateral and bilateral donors was approximately USD 6 billion, which was highest of any recipient country. The World Bank contributed almost USD 3 billion, of which about USD 500 million were concessional loans, and the

Asian Development Bank USD 1.2 billion in non-concessional loans. Among bilateral donors, Japan was by far the largest contributor (approximately USD 900 million net ODA disbursements in 1996).

However, the country's foreign aid amounts to only about USD 4 *per capita* and less than 1 per cent of GDP. Nevertheless, external support can provide an injection of key skills and resources to selected Chinese institutions, and confer status and prestige, enabling them to obtain more funding from a parent ministry. Foreign funds can also shield an institution from downsizing -- a particularly relevant issue under the present public sector reorganisation, which is being implemented in preparation for a market-based economy.

What is striking is the number of channels through which the various instruments of external aid flow into the country. Numerous government departments and institutions deal with external aid. The Ministry of Finance (MOF) has a World Bank unit and is also responsible for the Japanese ODA loans. The Ministry of Trade and Economic Co-operation (MOFTEC) deals with bilateral and UN agencies for grants and technical co-operation. Project requests are generally presented to donors by MOFTEC, acting as an intermediary for the beneficiary institution. The State Development Planning Commission (SDPC) approves large projects, and the Ministry of Science and Technology (MOST) is responsible for technical co-operation. Such an institutional setting indicates a somewhat decentralised government system, with administrative authority spread across separate tiers and agencies.

China, more than most developing countries, has set its own development aid agenda and has always been in the driver's seat. Bilateral donors have generally refrained from attaching much policy conditionality to their aid, reflecting a mix of commercial considerations and the intention of encouraging an irreversible shift in favour of the market. In general, after deciding their own areas of focus, donors have closely followed locally determined priorities. Donors' experience suggests that projects that they have identified proactively have run into difficulties securing government approval and that it is best to allow the Chinese to suggest projects. Those which address Chinese priorities are most likely to secure the active commitment of partner institutions. Donors, including the World Bank, consider the success rate of aid projects in China to be particularly high and that China generally makes good use of aid. On the other hand, the Chinese Government is often not particularly interested in policy dialogue with donors or in promoting an active co-ordination among donors. It is therefore questionable as to how much partnership is possible without a change in attitude and practice by the Chinese Government.

China's imminent "graduation" from World Bank's IDA eligibility after June 1999 is of particular concern for programmes for poverty reduction and in the social sectors, which are central to the Bank's assistance strategy to China. It is actually a serious problem as MOF and SDPC require that all loans be repaid by the beneficiary institutions or provinces, not from central government revenues. As a result, the International Bank for Reconstruction and Development (IBRD) lending for poverty, health, and education related operations will be restricted to projects with repayment capacity. Without central subsidies, it is unlikely that the poorer provinces will be able to participate in World Bank-financed projects in these areas. It is possible that the World Bank and the Chinese Government will seek concessional cofinancing from bilateral donors to at least partially or temporarily address this problem. The issue of on-lending of concessional loans by the Chinese Government support poverty alleviation and social sector programmes needs serious consideration by donors and the government.

Main features of the Japanese aid programme to China

Japan's official development aid to China is to be seen within the context of their broad and complex political and economic relationship. In 1997, with USD 63.8 billion in trade, Japan was China's top trading partner.

Japan is by far China's largest bilateral donor, and China has been, after Indonesia, the second largest recipient of Japanese aid. Japan provides this substantial volume of assistance against the following background:

- China has a close geographical proximity to Japan, and the two countries have strong political, historical and cultural ties. Maintaining and advancing stable, amicable relations between Japan and China is conductive to the peace and stability of the Asia-Pacific region, and thus to the entire world.

- Economic relations between China and Japan are becoming broader and deeper, including government-to-government economic and technical co-operation, as well as private investment and trade, and assistance in the development of resources.

- China has placed the highest priority on modernising its economy on market-based principles, through economic reform and a policy of opening up the country.

- China has an enormous land area and a huge population. The country also has a *per capita* GNP of only USD 750 (1996) and has a substantial need for assistance.

During the team's mission to Beijing, the Chinese authorities and aid partners expressed their appreciation of the Japanese aid programme.

On the basis of studies and research concerning development conditions and tasks in China and its development plans, as well as regular policy dialogues between Japan and China, Japan has given priority to assistance in the following areas:

- **Priority regions:** Japan is providing assistance, primarily and most importantly through the OECF, to support the improvement of economic infrastructure. Furthermore, in order to promote balanced development, Japan intends to devote more effort to China's interior, and provide assistance for agriculture and development of rural areas, as well as assistance to develop China's plentiful natural resources. For grant aid and technical co-operation, Japan emphasizes increasingly China's interior, and is focusing on basic human needs, mainly in impoverished regions.

- **Priority sectors:**
  - economic infrastructure, mainly transportation, energy (power plants) and communications;
  - agriculture, mainly in infrastructure (irrigation and waste water facilities), equipment and the improvement of agricultural techniques;
  - environment, mainly through financial assistance and technology transfers, including the establishment of a Japan-China Comprehensive Forum on Environmental Co-operation;

- health and medical services for the promotion of primary and preventive health care in rural areas;
- human resource development to promote and improve basic education through providing education materials and building schools as well as to train mid-level technical and managerial personnel.

- **Japan's *ODA Charter:*** Japan considers that favourable progress continues in China in line with the *ODA Charter* principle of efforts to build a market-oriented economy. This progress includes active promotion of economic reform and openness, and the policy of creating a "socialist market economy" as stated in the Chinese Constitution. In August 1995, however, Japan froze grant aid until China had clearly ceased nuclear testing. In July 1996, China implemented a moratorium on nuclear testing. In consideration of this and other factors, Japan recommenced its grant aid to China in March 1997.

After years in which it basically focused its assistance on a project by project approach, Japan is now placing its ODA in a five-year policy outline and will be preparing a country strategy for China. The intention is to co-ordinate all elements of Japan's aid system in partnership with China. This is a relevant and positive trend. It is essential to assessing the relevance, effectiveness and efficiency of the Japanese aid programme as a unit at the country-level.

Local representation in Beijing, particularly for OECF, focuses mainly on administrative tasks, and is rather weak in terms of staff size, compared to the volume of ODA loans provided to China. However, official missions from headquarters frequently visit China in order to conduct sector surveys, appraisals, and dialogue with Chinese implementing agencies. JICA is better represented, but delegation of authority from headquarters to the resident mission remains modest.

Japan and China hold annual meetings to discuss various issues, such as identification of development needs, selection of future projects, sector issues, implementation of ongoing projects, and so on. However, sector policy dialogue is still weak, particularly since Japan considers that conditionalities would be an intervention in "internal affairs". For instance, in the appraisal of an OECF-financed Water Provision Facility in Beijing project, representatives raised serious concerns over water pricing, as low water price is tantamount to a subsidy for depletion, but did not make any *ex-ante* conditionalities. While politically sensitive, the issue of price water should continue to be raised and monitored through appropriate policy dialogue

There has been a substantial and impressive amount of training, exchanges of experience, visits, common researches, and so on, at the level of academia, research centres, various public and private institutions, and municipalities. The Sino-Japanese Centre for Environmental Protection provides a good example. While successful, Japan's technology-driven approach -- which requires relatively abundant capital, technical skills, and good management -- cannot easily be sustained, as the experience in other developing countries has demonstrated.

Opportunities for the future

Even though its size and complexity make it unique, China is in many ways a test case of development, representing major challenges.

In line with Japan's move towards country assistance approaches, a clear China strategy should be established as soon as possible with resource allocation explicitly linked to policy; that is, a policy

framework which can provide substantive operational guidance for all Japanese agencies concerned. The China strategy should include strategic selectivity involving prioritising among possible programmes and instruments within a given country budget envelope, using three criteria: the magnitude of the potential development impact, in terms of improved country economic performance and sustainable poverty reduction; the real prospects of this impact materialising, given China's political economy, capacity, and external environment constraints; and Japan's value-added given its track record and its comparative advantage *vis-à-vis* other donors. The strategy should be discussed in country with recipients and made publicly available. The strategy should be shared with other donors, and incorporate their views, in particular those of the World Bank and the Asian Development Bank. Moreover, at the operational level, better co-ordination between the Japanese and other bilateral and multilateral donors in conjunction with MOF and MOFTEC could be made through informal informational exchanges and gatherings.

In addition, there is likely to be a need to provide grants, ODA loans, and technical co-operation as part of an integrated and well co-ordinated package. In practice, there is not enough co-ordination between these different instruments, which is accentuated by administrative separation within the Chinese Government. Annual policy and programming discussions between the two governments (covering all forms of assistance) within a medium-term framework would be valuable. It seems unlikely that such a dialogue would be resisted by the Chinese Government, provided that it is conducted on an equal footing and as a partnership. Evidence from China is that Japanese loans are truly untied, and that this is greatly valued by the Chinese Government.

Insufficient attention has been paid to sustainability, impact, outcomes and development results on the ground. In general, Japanese aid projects seem to be unduly input and process oriented. Due to limited staffing considering the magnitude of its operations, monitoring and evaluation of outcomes, development impact and sustainability have yet to be realised, especially for OECF. However, OECF is now contemplating on carrying out comprehensive studies on these aspects in the China programme, and has started providing advisory services in, for example, "The Regional Development Strategies in China" and "State-Owned Enterprise Reform", in order to enhance effectiveness of its co-operation. Though difficult to measure accurately, Japan's aid programme, in particular ODA loans for infrastructure, together with trade and direct investments, have made a positive contribution to the rapid economic growth of China in recent years. Nevertheless, in order to improve sustainability, policy dialogue at project, sector and programme levels should be strengthened, especially on tariff and cost recovery issues.

The switch by the World Bank to lending to China at IBRD rather than IDA terms is unwelcome to the Chinese Government. The terms of Japan's ODA loans will become even more attractive. This provides a real opportunity for Japan to enhance its development effectiveness and influence in China. There is scope in particular for OECF to collaborate with the World Bank, drawing on their expertise in the "softer" areas and stronger presence in the country. There is no doubt that China needs to invest more in the social sectors and poverty reduction activities, even though it is currently unwilling to use external loans for these areas. If Japan is to provide more assistance to the social sectors, to target the poorer provinces in the interior, and to help with the difficult transition to a market economy -- that is, to successfully change the main focus of its assistance -- it will have to reconsider its *modus operandi*. If the OECF field office in China has an essentially administrative, mechanical, facilitating role, with little or no policy role or decision-making power, achieving such new objectives will be difficult. This calls for managerial will, resources, and flexibility to adapt to new objectives and circumstances.

APPENDIX I

PERSON'S MET AND PROJECTS VISITED

- The Japanese officials dealing with Japan's aid programme in China in the Embassy in Beijing, OECF and JICA.

- The Chinese authorities dealing with Japan's aid programme in China from MOF, MOFTEC, SDPC, and MOST.

- The representatives of the following multilateral and bilateral institutions: the World Bank, UNDP, and Germany.

- The mission visited two projects supported by the Japanese aid programme:

  ⇒ OECF-loan to the Beijing Water Supply Project.

  ⇒ JICA-supported Sino-Japanese Centre for Environmental Protection, and met with representatives of Chinese counterpart institutions.

ANNEX III

GHANA REPORT

Introduction

To prepare for the DAC Review of Japan in April 1999, the Secretariat made a mission to Ghana from 7-11 December 1998. Persons met and projects visited are listed in Appendix I below.

Ghana was chosen for the field mission because of its financial and strategic importance in Japanese aid to Africa. It is currently the biggest recipient of Japanese official development assistance (ODA) in Sub-Saharan Africa, and conversely, Japan is the biggest bilateral donor in Ghana. In addition, Ghana is one of Japan's pilot countries for the implementation of the IDS.

Ghana's economic and social situation

Ghana was the first Sub-Saharan African country to become independent in 1957. It is located on the Gulf of Guinea close to the Equator, and has a population of approximately 18 million. Its *per capita* income was about USD 370 in 1997, with annual average GNP growth rate of 3.1 per cent. In 1995, the Ghanaian Government issued a report entitled *Ghana: Vision 2020,* which aimed for accelerated economic growth, reduced poverty through direct poverty alleviation, and improved quality of life for all Ghanaians, to reach the ultimate goal of becoming a middle-income country by the year 2020. However, fiscal imbalances and inflational pressure have worsened particularly since 1996, as the government failed to restrain public spending as planned. This resulted in a large slippage in domestic primary balance and a substantial increase in domestic debt to service interest payments. Ghana's external reserves position remains vulnerable with foreign reserves amounting to two months of imports of goods and services.

In 1997, Ghana's debt-service ratio stood at 33 per cent, and external public debt amounted to 94 per cent of GDP. Though most of Ghana's debt is official and concessional in nature, the recent rise in debt and debt-servicing has resulted from increased non-concessional borrowing. An assessment by the World Bank on Ghana's debt sustainability shows that, although Ghana has a high debt-service ratio, the situation would improve in 2000 and beyond. Therefore, the World Bank and other creditors do not currently envisage any debt relief. On the other hand, the debt sustainability analysis highlights the need for the government to continue with fiscal stabilisation, policy reform, and a prudent external debt management strategy.

While the Ghanaian Government's general policy of promoting economic growth and investing in social development has contributed to reducing poverty, direct poverty alleviation measures targeted at the poorest and most disadvantaged have been limited. Of the total population, 5 million are classified as poor, and 2 million are living under extreme poverty. Largely concentrated in the northern rural areas and in urban pockets, the Ghanaian Government feels the urgency of implementing some types of targeted poverty alleviation measures for these extreme poor. Social indicators did improve during the economic recovery programme launched in 1983, and the incidence of poverty fell from 37 per

cent to 31 per cent between 1987 and 1992. However, the reduction in poverty was almost totally a rural phenomenon, brought about by the growth of non-farm income, while urban poverty in greater Accra increased over the period. Although Ghana's social indicators compare favourably with average levels for Sub-Saharan Africa, infant and under-five mortality rates are still 73 and 116 per 1 000, respectively, only half the children aged 1-2 are immunised, and gross primary enrolment rate is 70 per cent for girls (see Appendix II).

Public social spending amounts to 5 per cent of GDP and, overall, is more evenly distributed than income. The challenge is to make such spending more efficient and to ensure that more of it goes to the poor, to women, and to disadvantaged areas. Spending on education is less regressive than on health, largely because of the progressive pattern of spending on primary education. The poorest 20 per cent of the population receives only 11 per cent of health and 16 per cent of education expenditures, while the wealthiest 20 per cent receives 34 per cent and 21 per cent respectively.

Japanese aid to Ghana

Overview

Japan's development assistance to Ghana started in 1963 with technical co-operation in the area of textile skills training. Since then, the assistance from Japan has increased in amount as well as in components. Currently, annual bilateral assistance from Japan exceeds well over USD 100 million. About two-thirds of the portfolio consists of ODA loans (about 1.9 per cent interest, 30 years repayment and 10 years grace period), with the rest being grant aid and technical assistance (see Table III-1). Japanese aid officials in Ghana believe the high proportion of loans is justified on their assessment of Ghana's development needs and loan absorption capacity, though they did not expect significant increases in the near future.

Table III-1. **Japan's ODA disbursements to Ghana from 1992 to 1997**

USD million

GRANTS			LOAN AID	TOTAL
Year	**Grant Aid**	**Technical Co-operation**	**(gross)**	
1992	13	9	49	71
1993	19	14	52	86
1994	40	13	84	138
1995	21	16	90	127
1996	19	18	78	115
1997	23	15	39	77

Source: MOFA and OECD.

Japan's ODA to Ghana is publicised in a two page country strategy, which is set forth in the ODA Annual Report (available also in English). The mission was informed that this strategy has recently been expanded in detail, jointly by the Embassy, JICA, and the OECF, and has been forwarded to Tokyo for endorsement. For the time being, it is expected to be available only in the Japanese language. However, it is hoped that an English version will be prepared soon so it will be possible for Japan to share it with other donors. Japanese officials stressed that the Ghanaians are well aware of Japan's priorities, which include infrastructure (rehabilitation of highways, rural feeder roads, and electricity supply), social sectors (rural and urban water supply, education, population control and

AIDS prevention, and children's health and medical services), and agriculture (food production, small scale irrigation, post harvest technology). By focusing on these areas, Japan is considered to be supporting *Ghana: Vision 2020*, which has subsequently been elaborated in mid-term strategies for each sector by the Ghanaian Government.

The 1996 decision to make Ghana one of Japan's pilot countries for implementing the IDS has, according to Japanese officials, resulted in some adjustments in the system of assistance, including a greater focus on the country context, more co-ordinated and comprehensive technical co-operation between OECF's loan projects and JICA, more systematic efforts towards co-ordination with the government and other donors, improved monitoring of on-going projects, introduction of pre-project analysis, and intensified South-South co-operation. However, it has not resulted in a major change in the sectoral allocation of Japanese ODA to Ghana, nor is that, according to Japanese officials, foreseen in the near future. "Basic human needs", by Japan's categorisation, may become a somewhat more important area of focus, but the main emphasis will remain on supporting economic growth through building economic infrastructure. The basic rationale is that the resources needed to eradicate poverty and to improve education and health should be generated by economic growth. In fact, Japanese officials consider this focus on economic growth to be one of the strengths of their programme in Ghana when compared to that of other donors.

It should also be mentioned that the Japanese Government's definition of the basic human needs sectors is rather wide, covering all projects in the social sector of education, vocational training, health, population, water, and agriculture and including support to tertiary health and higher education as opposed to focusing on primary health and basic education or the poor. An example is the Noguchi Memorial Institute for Medical Research Project (see Box III-1).

Types of assistance

a) ODA loans

The Japanese Government has provided Ghana with a cumulative sum of JPY 119.1 billion in yen loans for 16 projects and programmes. The programme supports Ghana's structural adjustment efforts (generally in the form of cofinancing with the World Bank and with a focus on second generation adjustments such as public sector reform), various sector type programmes (roads, water, and port development) and industrial development. See Appendix III below for a list of ODA loan projects programmes.

b) Grant aid

The social sector projects such as health, education, and water supply are generally supported by grant aid for the construction of facilities and procurement of equipment and materials. However, in Ghana, grant aid has also been used to cover the economic infrastructure sectors such as electrical power supply, ports, and bridges, with a view to promoting a sound socio-economic environment for sustainable growth. A wide range of general and non-project grant programmes are made available to achieve different objectives, including for increasing food production and for grassroots projects.

Box III-1. **Noguchi Memorial Institute for Medical Research**

The Noguchi Memorial Institute was established in 1979 with a JPY 2 billion (USD 9 million) grant aid from Japan to enhance its on-going technical assistance on medical research. It has units epidemiology, virology, nutrition, parasitology, bacteriology, clinical pathology, and electron microscopy. The institute was named after Dr. Hideyo Noguchi, a famous Japanese medical researcher, who devoted his life to the research of yellow fever in Ghana and died from the disease in 1928. The institute has placed emphasis on basic research activities related to major endemic diseases. It has evolved into a base for regional co-operation by serving as a referral laboratory and carrying out seminars and training courses for other African medical experts, for example, in vaccine potency testing and laboratory diagnosis techniques for yellow fever, polio, and measles. Furthermore, a number of joint research projects are being conducted by Ghanaian researchers, international and bilateral donors, and overseas institutions.

The institute, being part of the University of Ghana, falls under the responsibility of the Ministry of Education and not under the Ministry of Health. The latter makes use of the institute's facilities and expertise to train its laboratory workers and to meet its research needs. To support the region-oriented activities, Japan has been extending further financial grant aid and technical co-operation, including the dispatch of 44 Japanese medical scientists in total. Japan has recently decided to provide an additional grant of JPY 1 206 million (USD 10 million) for the rehabilitation of existing facilities, construction of new facilities, including laboratories for research on infectious diseases and a conference centre, and supply of laboratory equipment.

During the site visit, it appeared that the centre was understaffed and under-utilised. This view was also shared by another bilateral donor active in Ghana. When asked about the procurement of the recurrent materials and spare parts of equipment, a Ghanaian lab technician replied that these are provided by the Government of Japan and that there were currently no plans for the university to take over. In fact, the original plan was for Japan to provide the equipment and supplies with the agreement that the Ghanaian counterpart would be responsible for them after Japanese financing. However, in many cases, as pointed out in Japan's own evaluation reports, many recipient counterparts have problems in technically maintaining equipment and re-financing supplies that have been provided through Japan's grant aid. Japan has therefore come up with an Aftercare facility that would provide replacement of equipment and spare parts in cases where counterparts have been unable to. While this measure mitigates the situation, questions regarding sustainability of this type of investment still remains to be answered.

The original objective of the project was not specified in terms of any impact or outcome concerning the reduction in the incidence of the diseases being studied. No evidence has been presented which shows that the centre's activities has contributed to child survival, improvement in child health and nutritional status, increase in immunisation rate, or in the prevention of infectious diseases. In a country where there is one doctor per 25 000 people, government spending on health is less than USD 6 *per capita* annually, only half the 1-2 year olds are immunised, and one out of ten children do not live to five years old, the relevance or cost-effectiveness of such tertiary level investment needs to be re-examined. In particular, although this project has been provided as a grant to Ghana, it nevertheless requires Ghanaian contribution in terms of human resources and funds for maintaining the set-up. As resources as fungible within sectoral limits, the opportunity cost of such government resource allocation should also be taken into careful consideration at the designing stage of these types of high investment projects.

The **Grant Assistance for Grassroots Projects (GGP)**, introduced in 1989, supports the self-help efforts initiated by non-governmental organisations (NGOs) and local governments, up to USD 100 000 per project. By the end of FY1997, 86 projects had been financed throughout Ghana. The recipients of grants include local and international NGOs, town and village development associations, clinics and hospitals, research institutes and district assemblies. The scheme supports projects proposed by the applicants in areas such as primary education, primary health care, environment, population, poverty relief and basic infrastructure. Operational costs are not financed and therefore may limit the scope of the supported projects. Examples of eligible projects are: provision of medical equipment and medicine, and construction of schools, dormitories and clinics. Impact, sustainability, and women in development (WID) activities are claimed to be taken into consideration when selecting projects (see Box III-2).

Box III-2. **Gender issues**

Gender consideration in Japan's aid programme to Ghana is mostly reflected in the support towards traditional WID type projects. An example is the Rural Water Supply Project, whose aim was to reduce the distance and time for women to fetch water from a far water source by providing community water pumps. In this project, communities were required to pool contribution upfront and deposit funds into a bank account in order to pay for future maintenance costs. These funds were presumably managed by a woman representative in each community. The project also introduced a water committee system which expected women in the communities to play a more active role in their own environment. Local counterparts were also requested to conduct one or two sessions for mothers on health and sanitation which related to water use and household management. Other WID projects included assistance towards vocational training centres through women by providing sewing machines and tie dying materials. Furthermore, half of the GGP funded projects were geared towards women, such as the construction of dormitories for senior secondary girls' schools, day care centres for working women, and maternity homes.

Though a fraction of Japan's total aid to Ghana, these endeavours which focus on WID are a remarkable progress in the Japanese aid programme. Further efforts by mainstreaming gender issues will improve the Ghana programme substantially. This will include, for example: data collection and analysis of gender roles in non-WID type projects; inclusion in design and implementation of measures to support women's roles in these projects not specifically geared towards women, particularly in improving their socio-economic status; and the establishment of a quantifiable monitoring system that would allow adjustment of support towards women depending on feasibility and progress.

In particular, Japan needs to develop a strategy in Ghana to improve girls' schooling, as stated in one of the goals of the IDS. In the school-construction project, funded by the GGP facility and visited by the mission, increased girls' enrolment was not addressed in the project preparation stages nor was it monitored or evaluated. One of the major impediments seems to be the weak leadership from Tokyo in mainstreaming gender policy and guidelines into field implementation. Japan needs to go beyond distributing gender handbooks to field offices and to consultants. The capabilities in gender awareness and mainstreaming could be enhanced through: posting of gender experts in field offices; training of staff on analytical tools and operational guidelines; and mostly, to establish a country-level monitoring mechanism which ensures that gender issues are systematically addressed and periodically assessed in all or most project implementation.

c) Technical assistance

The aim of technical assistance is to transfer technical know-how, which is considered to be essential for development. The following are the different types provided by Japan to Ghana:

JOCV. Japanese young people with useful skills are sent to different institutions throughout the country to serve as volunteers. Since the introduction of the JOCV programme to Ghana in 1977, the country has received the services of over 600 volunteers in various sectors. On average, 50-60 volunteers are active at any given time with an assignment of two years or more. The institutions where the volunteers are based include senior secondary and vocational training schools, local communities, and hospitals. Science and/or mathematics teachers account for nearly half of the JOCVs in Ghana.

Dispatch of experts. Japanese experts are assigned to various organisations, such as public agencies, research institutions, schools and vocational training centres. They give advice on policy matters or guidance on technical education, training, operation, control and maintenance of equipment. By the end of 1997, a total of 334 experts had been dispatched to Ghana.

Training programme. Ghanaians from different sectors are sent as trainees to various JICA training courses in Japan. The aim of this programme is to contribute to the development of human resources and to promote mutual understanding as well as friendship between Ghana and Japan.

Project-type technical co-operation. When the various instruments such as the acceptance of trainees, dispatch of experts and supply of equipment are combined, this assistance is called "project-type" technical co-operation. Social development, agriculture, health, population and family planning are the priority areas for this co-operation. New projects which were started in 1997 include a project to promote small-scale irrigated agriculture and a project to improve in-service training for maternal-child health.

Development studies. Fact-finding and data collection are considered indispensable in the formulation of development plans. Under this programme, survey teams are sent to help formulate development plans and projects in the public sector. Topographic mapping of Southern Ghana and forest reserves in the transitional zone are being conducted.

Field Representation

Within the Japanese Embassy in Ghana, economic co-operation and donor co-ordination, including part of the grant aid programme, are covered by the First Secretary, a special assistant, and two local professional staff members. Eight Japanese officials including three JOCV co-ordinators and five local professional staff members of the local JICA office are responsible for implementing the remaining part of the grant aid programme and technical co-operation. Among the five Japanese JICA officials, one is specially assigned to work on adjustments in the programme to fully reflect the thrust of the IDS. In addition to Embassy and JICA officials, a large number of Japanese experts are posted in specific projects and are involved in day-to-day implementation. OECF, which is responsible for implementing the loan aid programme, has no representation in the country. The programme is mainly run from Tokyo through regular visits to Ghana, and followed up by staff in OECF's office in London. This lack of OECF representation in the field is an issue that needs to be addressed.

For an example, several donors in follow-up interviews expressed concern over some difficulties in sectoral co-ordination with OECF due to its lack of representation in Ghana, particularly regarding the Power Plant Barge Project. Japan is currently financing a JPY 12.2 billion (about USD 100 million)

off-shore electrical power plant project that was designed to use off-shore gas, despite the existence of a feasibility study, funded by France, which had shown that the gas was insufficient and scattered in small reservoirs. The study had also recommended that the plant be built on-shore as a least-cost solution. The result of this latest feasibility study had been shared during a monthly meeting attended by all major donors, including Japan, which was represented by an Embassy official. OECF's appraisal team from Tokyo based its project appraisal on other feasibility studies, and did not consult the French nor adequately other major donors who were locally active in the sector at the time. The off-shore barge and transmission lines are expected to be completed, but the project's financial viability is questionable as there is little prospect of a company to emerge and extract the limited gas supply. Therefore, the off-shore plant will have to operate with much more expensive imported diesel oil. This example confirms some practical lessons learned from post-evaluations of OECF involvement in major sectors, in particular:

> "The number of lessons is largest concerning the 'Project formation/Appraisal' stage of the project cycle. This might be because the provision of facilities and equipment, or 'physical construction', is often a top priority in developing countries, and this drives the executing agencies and the OECF to commence the project before any underlying problem may be resolved. Or, it may be that examination before commencement is not sufficient to even recognise such a problem[17]."

OECF is now making major efforts to resolve the problems of this project and has also decided to establish local representation in Ghana. With improved presence in the field, better OECF co-ordination with other donors and enhanced understanding of local conditions, including capacity and governance issues, are to be expected.

Our Japanese interlocutors posted in Ghana nevertheless felt that their capacity to run the programme was still limited compared to the number of projects involved. JICA acknowledged in particular a shortage of staff in the office with expertise in the areas of health and education, though they were compensated by technical experts working on specific projects. OECF explained that though staff were well aware of the importance of strengthening field presence, it was difficult due to budgetary and manpower constraints of the organisation.

Decision making authority at the Embassy and local JICA office level is rather limited. The Embassy can decide on the funding of the GGP up to USD 33 000, but otherwise, Tokyo makes major decisions regarding the aid programme. If NGOs are to take on a larger role in Japan's aid programme, as recommended in the ODA Reform Council's report, field level decision making authority needs to be enhanced. OECF staff on loan preparation or supervision needs commitments by Japanese Government or OECF headquarters. The time lag due to referrals to Tokyo can be a hindrance for Japan to effectively carry out partnership with the Ghanaian counterparts and other donors.

Co-ordination

Our Japanese interlocutors characterised the co-operation among donors and government in Ghana as excellent. Japan is involved in the various co-ordination mechanisms that are operational in Ghana. At a general policy level, there are local Consultative Group (CG) meetings on a quarterly basis,

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17. *Lessons Learned from the OECF Post-Evaluation – Abstract*, 18 September 1997 by Shinya Ejima and Katsuhiko Nakadate, Research Institute of Development Assistance, OECF Japan, para. 2.2.1.

which are chaired by the World Bank and attended by donors, the Minister of Finance, and the Governor of the Central Bank. The donor community also meets every month without the government.

Each major sector has its own co-ordination mechanisms. In the road sector, the Ministry of Roads and Transport holds a donor meeting once a year, and donors active in this sector meet regularly. These meetings are sometimes attended by representatives of the ministry. In the health sector, a Health Partner Meeting takes place every month, not only bringing together government and donor representatives, but also NGOs. Twice a year the government and donors meet formally to discuss relevant health sector issues. This is also the case in the education sector, with more informal meetings on a bi-monthly basis. In the agricultural sector, it is intended to have bi-monthly meetings as well, once the agricultural sector strategy has been formulated. Finally, there are ad hoc co-ordination meetings between donors and the government on institutional reforms.

In principle, Japanese representatives attend these meetings regularly. However, because of their limited staff capacities, they have difficulty in covering all co-ordination meetings and following up. Internal co-ordination of the Japanese aid programme is being ensured through monthly meetings of Embassy and JICA staff.

Views of recipients and other donors

Although all interlocutors on the recipient side emphasized their appreciation for the aid received from Japan, the discussions revealed some problems and bottlenecks. One concern relates to the complicated procedures of the Japanese aid programme and the long project preparation period. At the Ministry of Roads and Transport, it was mentioned that the time span between loan approval and implementation is sometimes lengthy. To overcome this problem, the ministry has proposed the use of similar instruments as the World Bank, such as pre-project financing or allowing part of the credit to be used for design purposes. To date, rules and regulations do not allow the accommodation of these kinds of facilities.

The condition of requiring substantial counterpart funds for loan aid is another concern. While the condition as such may be justified in terms of borrower contribution and sustainability, consideration needs to be given by Japan in taking into account the overall limit of the Ghanaian national budget in allocating sizeable resources to the infrastructure sector, particularly since it would displace Ghanaian funds allocable to other sectors such as health and education. Ghana has, through the support of donors, successfully established a Highway Fund -- collected through petrol tax and toll fees -- that was, according to the World Bank, sufficient to meet all road maintenance and rehabilitation costs.

Japanese officials claimed that it was difficult for Japan to contribute to a common basket of funds in a SIP, such as the one for health, due to accounting regulation for the Japanese contribution. There are several other donors who face the same problem. Japan tries to overcome this problem by participating in SIPs through taking up a discrete component of an overall programme. This was done over multiple years through financing polio vaccines and cold chain equipment in a multi-bilateral arrangement with the United Nations Children's Fund (UNICEF). Given current constraints, the Ministry of Health and UNICEF officials considered that this type of contribution by Japan in an overall Health SIP was highly welcome.

OECF has also contributed to the Ghana Highway SIP by providing technical co-operation in institution building. This consists of training the executing agency on improving management through enhanced "co-work" and "group-work", with an aim towards increasing ownership and responsibility over the programme. Contract management was also improved by assisting in the development of a

standardised manual for engineers. Furthermore, maintenance management was strengthened by, *inter alia*, providing know-how on mapping ambiguous road segments. Again, under the circumstances, officials of the Ministry of Roads and Transport, other bilateral donors active in roads, as well as the World Bank, considered this type of participation by Japan a good example of partnership.

In general, Japan's co-operation and contribution in donor co-ordination and partnership was considered positive by Ghanaian officials, NGOs, and bilateral and multilateral donors. Further enhancement could include carrying out joint-investments with individual donors for non-SIP type projects. For example, in the water sector, Japan and the UNDP could be complementary in a specific region by each side taking up a component matched to its strength. Other such joint-projects particularly in education and health, which are not the *forté* of Japan's ODA -- according to officials in Tokyo -- could substantially improve the quality of Japanese assistance to Ghana.

Conclusion

Japan has already made a substantial effort in adjusting the administrative set up in Ghana to implement the IDS, particularly by reinforcing staff capacity at the Embassy and JICA office. This effort is commendable as assessed against the past staffing capacity in Ghana, as well as comparatively to other field offices implementing the Japanese aid programme. Donor co-ordination and collaboration with the recipient government as well as NGOs could be a case of good practice for JICA and MOFA. There is also undoubtedly a growing interest in focusing more on the social sectors, especially at grassroots and rural levels. JICA in particular is making serious efforts to restructure its programme to be more supportive of the goals of the IDS.

These worthy directions in the Japanese development co-operation for Ghana are, however, bound within the parameters and constraints of Japan's ODA programme in general. For example, though staffing has been substantially improved, Japanese officials recognise that there is still room to increase experienced personnel as well as expertise compared to the volume of aid and the variety of sectors. Particularly other donors interviewed after the mission expressed that OECF's lack of field presence is a major impediment to the quality improvement in project preparation and supervision. Furthermore, the main pillar of Japanese aid to Ghana continues to be the support to economic growth through building infrastructure and anticipating a trickle down to eradicate poverty and to improve health and educational status of the population. Despite Ghana's high debt burden, the aid instruments would also remain predominantly loans as opposed to grants and technical co-operation, which are more appropriate to the social sectors. There is room for improvement in how OECF links the objectives of its projects to the targets of the IDS, as well as the methodology for measuring impact and effectiveness.

Since Japan has chosen Ghana as one of the target countries for implementing the IDS, the new country strategy currently being finalised should embrace a bottom-up logical framework incorporating the IDS's goals. It would need to include: a situational analysis that classifies different target populations; identification of constraints in achieving the goals; practical measures to address the problems; a rationale on the appropriate mix of instruments in achieving these goals; and an effective methodology for monitoring and evaluating progress. Furthermore opening up the strategy to a wider audience, including Ghanaian counterparts, NGOs, and other donors, in the spirit of partnership and transparency, would benefit Japan's assistance to Ghana in the long run. With the commitment that Japan has made in implementing the IDS in Ghana, there is high expectation that the efforts will eventually serve as a useful model in reshaping and further improving the Japanese ODA programme in general.

APPENDIX I

PERSONS MET AND PROJECTS VISITED

- Japanese officials of the Embassy and JICA in Accra who are dealing with Japan's aid programme in Ghana, as well as the Director in charge of OECF's operations for Ghana, who visited at the time from Tokyo.

- Ghanaian authorities dealing with Japan's aid programme in Ghana from the Ministry of Agriculture, Ministry of Trade and Industry, Ministry of Health, Ministry of Roads and Transport, Ministry of Finance, Ministry of Education, and the National Development Planning Commission.

- Representatives of the following NGOs receiving Japanese funding in Ghana: Planned Parenthood Association of Ghana, Global 2000, the Catholic Relief Services, and the Mayday Rural Project.

- Representatives of the following multilateral and bilateral institutions: UNDP, UNICEF, EC, France, United States, Germany, United Kingdom, and Denmark. After the mission, a telephone conference was held in Paris with the World Bank Mission in Ghana.

- The mission visited five projects supported by the Japanese aid programme: Rural Water Supply Project in Koforidua, School Building Project in Kotuka, Fishing and Commercial Port Development Projects in Tema, and Noguchi Memorial Institute for Medical Research. Although it was not possible to visit the project itself due to time constraints, the Power Plant Barge Project was discussed at some length with the Chief Executive of the executing agency, the Ghana National Petroleum Company, and the Director from OECF.

APPENDIX II

SOCIAL INDICATORS

	Units	Ghana	SSA
Health			
Infant mortality	per 1 000 births	73	92
Under-5 mortality	per 1 000 births	116	157
Maternal mortality	per 100 000 lives	742	-
Life expectancy	Years at birth	59	52
Immunisation	Percentage of 1-2 age group	55	54
Stunting	Percentage of children	33	39
Access to safe water			
-- Rural	Percentage of population	46	-
-- Urban	Percentage of population	76	-
Education			
Literacy Overall	Percentage of population 15+	60	57
Female	Percentage of population 15+	53	46
Gross Primary Enrolment (all)	Percentage of age group	76	72
(female)	Percentage of age group	70	65
Gross Secondary Enrolment (all)	Percentage of age group	44	18
(female)	Percentage of age group	28	14

Source: World Bank.

APPENDIX III

ODA LOAN PROJECTS PROGRAMMES IN GHANA
(IN JPY 100 MILLION)

1982	Telecommunication Expansion Project (59)
1985	Port Rehabilitation (59)
1987	Road Rehabilitation Project (111)
	Structural Adjustment Credit (10)
1988	Telecommunication Expansion Project (II) (105)
	Financial Sector Adjustment Programme (126)
1990	Kumashi-Paga Road Rehabilitation Project (84)
	Second Structural Adjustment Programme (50)
1992	Private Investment and Sustained Development Promotion Programme (63)
1993	Water Sector Rehabilitation Project (54)
	Procurement of Locomotives, Rolling Stock and Workshop Equipment Project (62)
1995	Power Plant Barge Project (122)
1996	Highway Sector Adjustment Programme (25)
	Private Sector Adjustment Programme (60)
1997	Highway Sector Investment Project (II) (103)
1998	Achimota-Aninam road Improvement Project (97).

ANNEX IV

COUNCIL ON ODA REFORMS FOR THE 21ST CENTURY (EXCERPTS FROM SUMMARY OF FINAL REPORT)

APPROACHES TO PRIORITY SECTORS FOR ASSISTANCE

Emphasis on poverty elimination and social development

In the future, priority should be given to types of assistance that serve to eliminate poverty. Human-centred development should be stressed, emphasising that the ultimate goal of development is to improve the well-being of people. Japan needs to increase the weight of its projects in the social development sector, focusing on assistance in basic education, health and medical services. A comprehensive approach will be promoted which not only involves infrastructure equipment support, but also assistance in providing experience and information, effective use of funds, and participatory development. Moreover, Japan will work to improve co-operation and collaboration with organisations such as domestic and foreign NGOs, as well as the JOCV.

Development of economic infrastructure

Infrastructure development continues to be of major importance, and ODA will be mainly allocated to sectors in which it is difficult to acquire funding other than ODA. Projects are to be implemented by including technical co-operation as part of financial co-operation, and efforts are to be made in co-ordination with international institutions.

Environment issues

Environmental issues require Japan's active involvement through ODA. When formulating projects, Japan will actively endeavour to engage in joint project formulation, and will provide incentives for developing countries to formulate projects involving environmental protection. Japan will also emphasise co-operation in combating and adapting to global warming in developing countries. Moreover, greater consideration will be given to environmental aspects at the planning and implementation stages for ODA projects.

Assistance to women in development

Japan will endeavour to increase its support in areas that assist the empowerment of women, and will take gender equality into consideration at each stage of assistance.

Human resources development in developing countries

Human resources development is the foundation for nation building, and is therefore a sector in which increased co-operation is necessary. Efforts should be made to enhance the gathering, analysis and research of data on human resources in each country, to further develop Japan's policy towards accepting students from developing countries, to achieve efficient implementation of each assistance

scheme, and to co-operate with international institutions. Moreover, from a long-term perspective, young promising leaders who will eventually hold key positions in their respective countries should be invited to Japan for long periods, in order to foster leaders with a deep understanding of Japan.

Advanced technical co-operation

Japan needs to build a "human resources bank" that will provide or obtain human resources within Japan, in order to enhance intellectual co-operation. It is also important for Japan to extend co-operation to assist financial and currency reforms in each country, and to counter the recent instability in the currencies of Asia.

Forming a global partnership

A global partnership must be formulated between developed countries, middle income countries and developing countries. for this purpose a "Partnership Promotion Forum" will be established with Japanese assistance focused on Asia. Moreover, new concepts and standards will be considered in the definitions of "ODA" and the "List of Developing Countries", including a flexible and adaptable system for graduating countries from assistance.

Cross-border regional co-operation

Japan will actively pursue co-operation, and will formulate development programmes, for overall development of regions that cross national borders.

Conflict prevent, post-war recovery and development assistance

ODA has a major role to play in peace-building after conflicts have been resolved, and in preventing disputes as well. Japan will ensure prompt and active response in this area. The country will also take the initiative in providing assistance for solving landmine problems and aiding their victims.

Emphasising the role of the private sector

The energy, experiences and human resources of the private sector will be harnessed in order to effectively use ODA assistance, in consideration of the fact that ODA functions as a stepping stone to increased trade and investment.

CITIZEN PARTICIPATION, INFORMATION DISCLOSURE AND DEVELOPMENT EDUCATION

Citizen participation

NGO assistance will be substantially expanded. This will involve assignment of projects in their entirety to institutions such as NGOs, universities and think tanks. A greater emphasis will also be placed on co-operating and co-ordinating with NGOs, building the NGOs' organisational capabilities and ability to take action, and initiating policies to promote and enhance the NGO/MOFA Quarterly Conference.

Japanese private companies are essential partners in ODA implementation, and thus a framework is to be established to make use of the experience, knowledge and human resources of the private sector for the efficient and effective implementation of ODA.

The government and aid implementing institutions will provide greater information to assist international co-operation by local governments, and ODA funds are to be provided to support co-operation projects implemented by these local bodies. The JOCV and the Senior Overseas Volunteer Programme should also be augmented.

Disclosure of information

Disclosure is indispensable to obtaining understanding and support of ODA from the Japanese people. The government will examine policies to promote the disclosure of information, and enhance the information database concerning developing countries and the content of assistance projects. It will also assign an officer responsible for disclosure at MOFA and aid implementing institutions, and promote disclosure of ODA implemented by various government entities. Moreover, the government will examine the possibility of establishing "local international co-operation plazas" that will provide a wide variety of information on international co-operation, in conjunction with local governments and international associations in the region.

Development education

Development education will be promoted through various means, including schools, in life-long education programmes and in social education. In this regard, consideration will be given to convening meetings on development education.

FOSTERING AND UTILISING HUMAN RESOURCES

In order to foster experts in development assistance, Japan will consider the use of internships, and will increase the number of publicly recruited experts and dispatch programme officers to developing countries. Moreover, in order to enhance exchanges between a variety of institutions, Japan will promote the use of internship programmes in embassies, local offices of aid implementing institutions, and NGOs, as well as promote a networking system between think tanks, educational and research institutions, using the Foundation for Advanced Studies in International Development as a hub. Japan will also build and enhance its data bank for human resources, based on JICA's Institute for International Co-operation.

APPROACHES TO EFFECTIVE ODA IMPLEMENTATION SYSTEM

Organisational structure to achieve country-specific development programmes

An ODA Policy Co-ordination Council (tentative name) will be established, headed by MOFA and consisting of members of related government agencies and aid implementing institutions.

Country-specific development programmes are to be result-oriented and accurately representative of local needs. The local Embassy should take the leading role in compiling the draft proposals in co-operation with aid implementing institutions. During this process, co-ordination will be sought with non-ODA funding and the private sector, and efforts will be made to introduce macro-economic elements.

Japan will make further efforts to reform the current budgetary process in order to increase the impact of ODA projects by permitting the implementation of multi-year projects. Pledging, at least indicating, to provide the estimated amount for these multi-year planning or to implement the content of the multi-year projects should be made possible.

Efforts will be made to co-operatively distribute and integrate information among the related agencies and MOFA.

Structural reforms should be made in the Economic Co-operation Bureau at MOFA, and co-ordination with regional affairs bureaus will be enhanced. Japan will clarify the roles for the government and aid implementing agencies, and should actively transfer operations and authorities for assistance to the aid implementing institutions.

Co-operation between the OECF and JICA will be strengthened, and aid implementing institutions should make efforts to streamline and simplify operation management and procedures.

Japan will enhance the functions of embassies and local offices of aid implementing institutions in developing countries, and closer co-operation will be sought with NGOs and companies in the private sector that are active in these countries.

In order to increase the objectivity of evaluations in the present system, more evaluations by outside parties will be sought and evaluation methods will be developed. The division of operations for evaluations will be clarified between MOFA, JICA and the OECF. Further measures will be taken to diversify and integrate the evaluation recommendations, to improve feedback on evaluation results, and to enhance publicity concerning this evaluation system. A system will also be put in place that will enable prompt and dynamic follow-up after project implementation.

Co-ordination with the private sector and international institutions

One major function of ODA is to encourage companies in the private sector to contribute to the growth of developing countries, and to create an environment that allows the private sector to be more active within developing countries. A variety of measures will be pursued to support infrastructure projects by the private sector.

In order for Japan's policy goals to be reflected in its assistance through international institutions, Japan will increase its co-operation with these institutions, engage in more onsite dialogues, and enhance its efforts in policy dialogue and personnel exchanges with the head offices of the international organisations.

ANNEX V

THE OUTLINE OF THE MEMORANDUM ON ENHANCEMENT OF TRANSPARENCY AND EFFICIENCY OF ODA (27 NOVEMBER 1998)

Public support and understanding of the government assistance programmes are indispensable to keep up ODA and fulfil Japan's responsibility to the international community under severe economic and fiscal situations.

To this end, an actual state of ODA should be informed of to the public. Its transparency should be enhanced. At the same time, it should be implemented with mobility and flexibility to respond to needs and development stages of recipient countries. Its efficiency should also be enhanced.

Enhancing transparency

Point: Programmes which lack transparency of the implementation process should be eliminated.

Major measures

1. Enhancing transparency when selecting projects

- Drafting and publicising ODA mid-term policy: A mid-range policy, about five-years long or so, should be worked out by mid-1999 in an effort to clarify ODA's basic direction, priority areas and objectives. The drafted policy will be publicly announced.

- Drafting Country Assistance Programme (CAP): CAP, which clarifies objectives and areas of priority on respective recipients and indicates guidelines for selecting proposed projects, should be settled on and publicly announced. Initially, CAP for about 10 countries will be worked out at an earliest possible time in 1999.

- Announcement of possible projects for yen loans: In order to indicate the mid- and long-term perspective of yen loan programmes, a list of projects that could be covered by yen loans (Long List) will be worked out for each recipient country and announced publicly.

2. Enhancing evaluation systems and promoting disclosure

- The evaluation should be done as much as possible. The outcome of the evaluation is to be made public. Evaluation methods are to be upgraded.

- The process of bidding for projects under grant aid and loans should be further disclosed in tandem with the progress of information disclosure on domestic public works. Information regarding the projects to be conducted after 1 April 1999 -- bidders, bided amounts, the winning bidder and the contracted amount -- will be made public.

- ODA-related information should be integrated and published through the Internet.

Improvement of efficiency

Point: Flexible and mobile implementation of aid programmes.

Major measures

1. Measures for efficient and effective assistance

- Planning: Programmes will be well organised and well planned by giving attention to objectives, priority fields and areas under the above-mentioned ODA mid-term policy and country programmes.

- Prevention of vested rights: The development aid policy to respective countries should be reviewed regularly with consideration of self-help efforts, good governance principles of the ODA Charter and other factors.

- Mobility and flexibility: The government will keep implementing policies with mobility and flexibility, according to situations of recipients and their relations with Japan.

2. Efficient implementation of assistance

- Systems should be established to ensure efficient and effective collaboration and co-ordination among ministries and agencies that are involved in ODA.

- Where preliminary surveys by ministries and agencies and other organisations are duplicated, co-ordination among offices involved must be done in order to enhance efficiency.

- Co-ordination among schemes must be strengthened; broad-based public participation, including the support to NGOs, should be promoted.

3. Improvement of implementation

- JICA will be re-organised to strengthen the "country-oriented approach", a feedback system from post-implementation evaluations to planning, and other reforms.

- Improvement of implementation of ODA should be achieved through, among others, the strengthening of systems to inspect consultants' works on grant aid projects.

In order to ensure the steady implementation of those measures, ministries and agencies concerned are required to make a progress report to the Councillor's Office on External Affairs for the Cabinet at the end of every fiscal year.

ANNEX VI

JAPAN'S NEW ASSISTANCE PROGRAMME FOR AFRICA IN LINE WITH THE TOKYO INTERNATIONAL CONFERENCE ON AFRICAN DEVELOPMENT (TICAD) II AGENDA FOR ACTION

Priority in social development

Promotion of assistance, particularly in the field of primary education, health and medical services, and water resources

Japan aims to extend approximately JPY 90 billion of grant aid over the next few years, thus will provide new educational facilities for more than 2 million children and will improve living conditions for more than 15 million people.

Establishment of Centres for Parasitic Disease Control

The Centres for Parasitic Disease Control will be established in Asia and Africa (Ghana and Kenya) with a global network in close collaboration with the World Health Organization (WHO). They will provide training courses and operational research for parasitic disease control and contribute to regional co-operation, especially South-South co-operation among African and Asian countries, through their activities.

Effort to eradicate polio

Japan and the United States have played a key role in the success of efforts to eradicate polio world-wide, providing vaccine and equipment within the framework of the Japan-US Common Agenda. Japan and the United States will reaffirm and strengthen the commitment to end the scourge of this disease from the African continent through expanding co-operative eradication efforts at the grassroots level by the JOCV and US Peace Corps Volunteers.

Economic development

Establishment of Asia-Africa Investment Information Service Centre

In order to promote investment in Africa by Asian enterprises, Japan will collaborate with the United Nations Industrial Development Organization (UNIDO) and the United Nations Conference on Trade and Development (UNCTAD) to establish an Asia-Africa Investment Information Service Centre within SIBEXLINK of Malaysia -- a semi-governmental organisation for information services -- to provide investment information through the Internet.

Asia-Africa business reform

Japan, in collaboration with the UNDP, will support the launching of an Asia-Africa Business Forum where business people of the two regions get together in a capital in Asia in late 1999 for trade and investment promotion between Asia and Africa. This will be followed by a second forum to be organised in Africa in 2000.

The year of small and medium-sized enterprises (SMEs)

Japan welcomes the idea that the year 2000 be declared as "SMEs year" to focus the attention of the Asian and African countries as well as the international community on fostering SMEs, which are a key to development in the private sector.

Promotion of rice cultivation through Asia-Africa co-operation

i. Japan plans to test and demonstrate in Côte d'Ivoire appropriate technology of rice cultivation and to extend it in the West African region.

ii. Japan assists the joint research between the West African Rice Development Association (WARDA) in Côte d'Ivoire and the International Rice Research Institute (IRRI) in the Philippines to boost upland rice production by hybridisation between African and Asian rice species.

iii. Japan will also collaborate with IRRI to help farmers in south-east African countries, where the climate is similar to that in south-east Asia, to grow more rice by dispatching Asian experts.

Tourism promotion in the Southern Africa region

As the first step of capacity building measures to tourism authorities in the Southern African Development Community region, JICA plans to host a "Tourism Promotion Seminar" to share Japan's experience and knowledge of in-bound tourism promotion, as well as marketing strategy to attract Japanese and other Asian tourists. Japan will also look into the possibility of dispatching experts to the region, with a view to further strengthening the capacity of African tourism authorities and promoting tourism development in the region.

Debt management capacity building

Japan will help African countries with heavy debts in their efforts to improve their debt management capacity by providing bilateral technical assistance and in collaboration with UNDP and the African Development Bank (AfDB).

Grant for debt relief

Japan has so far extended about JPY 30 billion in grant aid for debt relief for African countries within the framework of international arrangements, and is currently considering enlarging the scope of the relief in view of the worsening debt situation in certain countries.

Basic foundations for development

Africa Governance Forum

UNDP organises "Africa Governance Forum" every year (next several years from 1997). In this Forum, African countries which are active in structural reforms of their governments and capacity building of their human resources and civil societies discuss their own country programmes with donor countries, international organisations, representatives of civil society, and so on. Japan intends to support some of the specific projects to be identified in the country programmes, making use of part of Japan's contribution to the UNDP Human Resources Development Fund.

Support for OAU Mechanism for Conflict Prevention, Management and Resolution

OAU, the regional organisation to which all African countries (except Morocco) belong, established "Mechanism for Conflict Prevention, Management and Resolution" in 1993 for a structure to work comprehensively on conflicts in Africa. Japan has, since fiscal year 1996, been contributing to the OAU Peace Fund, which was founded together with the Mechanism as its financial resource. This contribution has been utilised as support for various OAU initiatives such as establishing early warning systems and holding conferences for conflict resolution.

Support for the UNHCR's activities to promote the reintegration of refugees

The project is supervised by United Nations High Commissioner for Refugees (UNHCR) in co-operation with implementing agencies (NGOs) with a budget of around USD 1.5 million which will be funded from Japanese voluntary contributions. The project is designed to promote the reintegration of returnees of African refugees through implementation of micro-finance as seed money for starting small enterprises.

Support for anti-personnel mine clearance

Japan announced, at the Ottawa Treaty Signing Conference in December 1997, a "Zero Victims Programme" and that it will provide approximately JPY 10 billion (or approximately USD 80 million) in the next five years for landmine clearance and victims support. Japan will provide assistance to African countries in their efforts for mine clearance and rehabilitation of victims.

South-South co-operation

Training of 2 000 Africans over the next 15 years in Japan-sponsored training programmes to be held in Asia and in North African countries

i. JICA plans to invite 1 000 African trainees in the next five years to the third country training programmes to be held in Asian and North African countries.

ii. Japan will financially assist the Indonesian Centre for South-South Technical Co-operation, constructed in February 1998 by the Government of Indonesia with the financial assistance of Brunei Darussalam, to accept another 1 000 trainees for the coming five years.

Asia-Africa Forum (AAF)

The Japanese Government, together with the co-organisers of TICAD II, will assure a policy dialogue framework in order to promote Asia-Africa co-operation. Followed by the previous AAF in Indonesia in 1994 and Thailand in 1997, the third AAF will be held next year. Regional workshops in Africa will also be organised to discuss concrete action.

Trilateral co-operation between Japan, France and Malaysia

"Trilateral co-operation among Japan, Malaysia and France"-- an initiative launched by the heads of the three governments in 1997 for co-operation in Africa -- will start early next year with skill training programmes for Africans, utilising Japan-assisted facilities in Malaysia and with inputs from France.

Strengthening co-ordination

Bases for African human capacity building

Japan intends to set up bases for human capacity building in Africa. As a model case, it plans to co-operate with the Jomo Kenyatta University of Agriculture and Technology (JKUAT) in Kenya, one of the most successful project sites in nearly 20 years' of Japanese co-operation. The JKUAT will serve as a model case of practical, interdisciplinary research on development aiming to extend the results to other African countries.

Networking among development research and training institutes

Japan plans to initiate a network among development research and training institutes concerned with encouraging joint research and capacity building for African development.

Japan-Africa Exchange Programme

In this Programme, lectures and symposiums will be held across Japan with the participation of African people engaged in development activities. The project aims to increase grassroots support for Japan's assistance to Africa.

Follow-up activities

TICAD II Facility

The TICAD II Facility, a part of the UNDP's Asia-Africa Co-operation Fund, will be utilised to realise the effective monitoring of the Agenda for Action by convening regional seminars for each of the four different regions within Africa and the formulation and implementation of concrete projects of Asia-Africa co-operation.

ANNEX VII

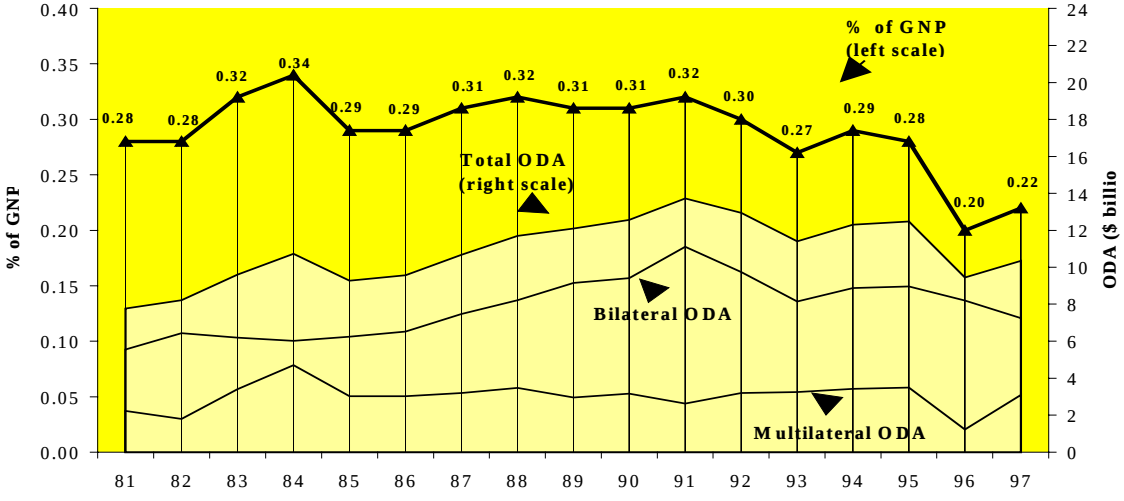
STATISTICS OF AID AND OTHER FLOWS

Table VII-1. **Total financial flows**
USD million at current prices and exchange rates

Japan	1981-1982	1986-1987	1993	1994	1995	1996	1997
							Net disbursements
Total official flows	**6 065**	**5 222**	**15 747**	**17 131**	**20 669**	**11 467**	**13 813**
Official development assistance	3 097	6 488	11 259	13 239	14 489	9 439	9 358
Bilateral	2 314	4 490	8 044	9 558	10 419	8 207	6 552
Multilateral	783	1 998	3 215	3 681	4 071	1 232	2 806
Official aid	n.a.	n.a.	530	247	250	184	84
Bilateral			123	133	144	157	67
Multilateral			407	114	106	27	17
Other official flows	2 968	-1 266	3 958	3 645	5 929	1 845	4 371
Bilateral	2 922	-1 143	3 327	1 575	4 908	1 912	4 251
Multilateral	46	- 123	631	2 070	1 021	- 67	121
Grants by NGOs	**25**	**87**	**159**	**213**	**216**	**232**	**223**
Private flows at market terms	**4 463**	**11 073**	**1 415**	**10 385**	**22 258**	**29 398**	**19 114**
Bilateral: *of which*	2 899	9 483	5 224	13 256	22 123	29 978	20 525
Direct investment	1 388	4 009	2 376	7 444	9 561	9 888	15 134
Export credits	- 525	640	1 938	1 675	2 000	-1 524	-3 460
Multilateral	1 564	1 589	-3 809	-2 870	135	- 581	-1 411
Total financial flows	**10 554**	**16 381**	**17 321**	**27 729**	**43 143**	**41 097**	**33 150**
for reference:							
ODA (at constant 1996 $ million)	*8 001*	*10 119*	*11 402*	*12 299*	*12 474*	*9 439*	*10 347*
ODA (as a % of GNP)	*0.28*	*0.30*	*0.27*	*0.29*	*0.28*	*0.20*	*0.22*
Total flows (as a % of GNP) [a]	*0.96*	*0.75*	*0.38*	*0.62*	*0.82*	*0.82*	*0.70*

a. To countries eligible for ODA.

ODA net disbursements
at constant 1996 prices and exchange rates and as a share of GNP



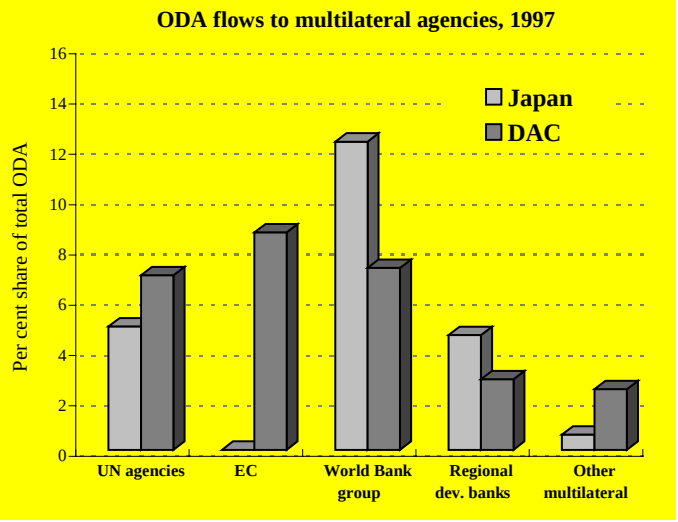
Source: OECD.

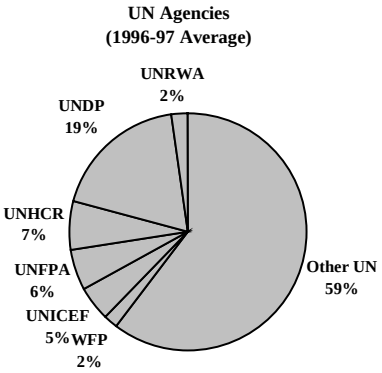
Table VII-2. **ODA by main categories**

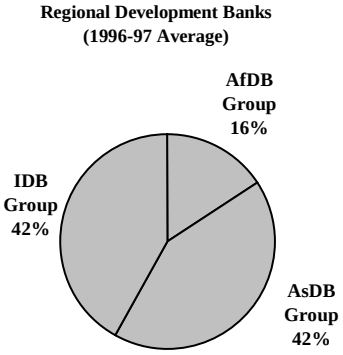
Gross disbursements

Japan	Constant 1996 $ million					Per cent share					Total DAC
	1993	1994	1995	1996	1997	1993	1994	1995	1996	1997	1997%
Bilateral	**12 239**	**11 161**	**11 548**	**11 671**	**10 790**	**79**	**77**	**77**	**90**	**78**	**71**
Project and programme aid											
Grants	1 588	1 665	1 875	1 705	1 731	10	11	12	13	12	13
Loans	7 684	6 237	6 126	6 233	5 279	50	43	41	48	38	15
Technical co-operation	1 895	2 038	2 064	2 184	2 163	12	14	14	17	16	23
Developmental Food aid (a)	44	51	54	63	49	0	0	0	0	0	2
Emergency and Distress relief (a)	41	29	52	72	81	0	0	0	1	1	4
Action relating to debt	270	381	444	422	302	2	3	3	3	2	6
Core support to NGOs	144	156	279	286	434	1	1	2	2	3	2
Administrative costs	571	591	650	703	749	4	4	4	5	5	5
Other grants	4	12	3	3	3	0	0	0	0	0	2
Multilateral	**3 256**	**3 419**	**3 504**	**1 232**	**3 102**	**21**	**23**	**23**	**10**	**22**	**29**
UN agencies	601	630	641	702	682	4	4	4	5	5	7
EC	-	-	-	-	-	-	-	-	-	-	9
World Bank group	1 624	1 638	1 649	136	1 702	10	11	11	1	12	7
Regional development banks (b)	903	1 036	711	226	634	6	7	5	2	5	3
Other multilateral	65	75	504	168	85	0	1	3	1	1	2
Total gross ODA	**15 495**	**14 580**	**15 053**	**12 903**	**13 893**	**100**	**100**	**100**	**100**	**100**	**100**
Repayments	**-4 094**	**-2 281**	**-2 579**	**-3 463**	**-3 546**						
Total net ODA	**11 402**	**12 299**	**12 474**	**9 439**	**10 347**						
For reference:											
Aid channelled through NGOs	-	-	-	-	-						
Associated financing (c)	-	-	-	-	-						

a. Emergency food aid included with Developmental Food Aid up to end 1995.
b. Excluding EBRD.
c. ODA grants and loans in associated financing packages.





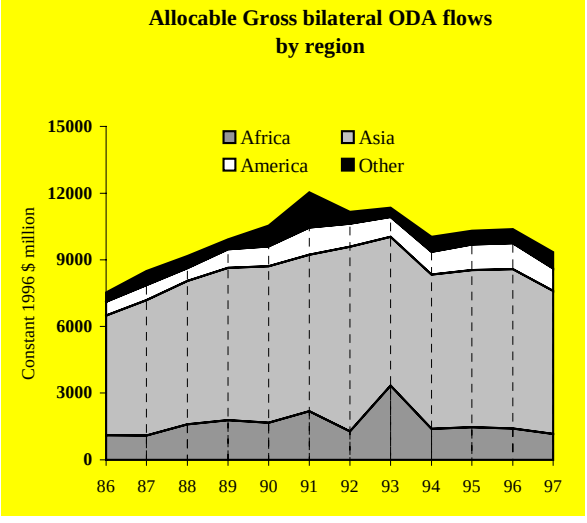


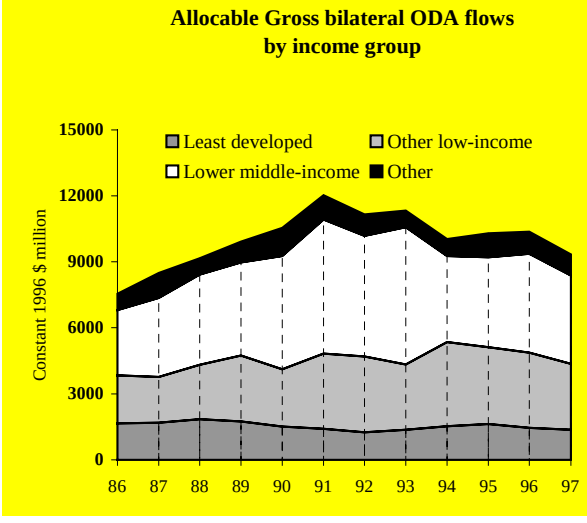
Source: OECD.

Table VII-3. **Bilateral ODA allocable by region and income groups**

Gross disbursements

Japan	Constant 1996 $ million					Per cent share					Total DAC
	1993	**1994**	**1995**	**1996**	**1997**	**1993**	**1994**	**1995**	**1996**	**1997**	**1997%**
Africa	3 333	1 393	1 465	1 409	1 167	29	14	14	14	13	**38**
Sub-Saharan Africa	1 054	1 137	1 208	1 130	952	9	11	12	11	10	**30**
North Africa	2 279	255	257	279	216	20	3	2	3	2	**8**
Asia	6 692	6 947	7 070	7 168	6 442	59	69	69	69	69	**35**
South and Central Asia	1 443	2 261	1 950	2 075	1 920	13	23	19	20	21	**13**
Far East	5 249	4 686	5 120	5 093	4 522	46	47	50	49	48	**23**
America	910	1 017	1 146	1 167	995	8	10	11	11	11	**14**
North and Central America	322	454	571	612	475	3	5	6	6	5	**6**
South America	588	563	575	555	520	5	6	6	5	6	**8**
Middle East	209	486	388	327	440	2	5	4	3	5	**5**
Oceania	142	123	144	204	181	1	1	1	2	2	**5**
Europe	52	66	88	96	109	0	1	1	1	1	**4**
Total bilateral allocable	**11 339**	**10 031**	**10 300**	**10 371**	**9 334**	**100**	**100**	**100**	**100**	**100**	**100**
Least developed	1 362	1 527	1 622	1 461	1 360	12	15	16	14	15	**26**
Other low-income	2 980	3 821	3 500	3 401	2 997	26	38	34	33	32	**28**
Lower middle-income	6 233	3 917	4 081	4 498	4 031	55	39	40	43	43	**36**
Upper middle-income	488	589	763	752	870	4	6	7	7	9	**7**
High-income	276	177	334	259	77	2	2	3	3	1	**3**
For reference:											
Total bilateral	*12 272*	*11 187*	*11 575*	*11 694*	*10 790*	*100*	*100*	*100*	*100*	*100*	***100***
of which: Unallocated	*934*	*1 156*	*1 274*	*1 322*	*1 456*	*8*	*10*	*11*	*11*	*13*	***22***





Source: OECD.

Table VII-4. **Main recipients of bilateral ODA**

Gross disbursements, annual averages

Japan	**1986-87**				**1991-1992**				**1996-1997**		
	Current $ million	**Constant 1996 $ mn.**	**Per cent share**		**Current $ million**	**Constant 1996 $ mn.**	**Per cent share**		**Current $ million**	**Constant 1996 $ mn.**	**Per cent share**
Indonesia	639	971	12	Indonesia	1 540	1 851	16	Indonesia	1 208	1 259	13
China	525	824	10	Philippines	946	1 122	10	China	963	1 007	10
Philippines	477	761	9	China	874	1 044	9	Thailand	760	794	8
India	347	541	7	India	775	947	8	India	741	778	8
Thailand	345	540	7	Thailand	531	640	6	Philippines	714	749	8
Top 5 recipients	**2 333**	**3 636**	**45**	**Top 5 recipients**	**4 666**	**5 604**	**49**	**Top 5 recipients**	**4 385**	**4 587**	**47**
Bangladesh	310	483	6	Egypt	376	466	4	Malaysia	363	387	4
Myanmar	229	366	4	Malaysia	310	375	3	Pakistan	327	340	3
Malaysia	218	327	4	Jordan	285	351	3	Bangladesh	297	311	3
Korea, Rep.	170	264	3	Peru	257	315	3	Sri Lanka	211	221	2
Pakistan	167	262	3	Turkey	251	313	3	Viet Nam	186	199	2
Top 10 recipients	**3 426**	**5 338**	**67**	**Top 10 recipients**	**6 145**	**7 423**	**64**	**Top 10 recipients**	**5 770**	**6 045**	**61**
Egypt	134	215	3	Korea, Rep.	249	300	3	Egypt	163	170	2
Sri Lanka	133	210	3	Pakistan	227	272	2	Mexico	160	164	2
Turkey	126	193	2	Bangladesh	220	264	2	Korea, Rep.	153	157	2
Nepal	73	115	1	Sri Lanka	205	251	2	Jordan	134	141	1
Brazil	70	107	1	Viet Nam	186	216	2	Brazil	108	114	1
Top 15 recipients	**3 963**	**6 178**	**77**	**Top 15 recipients**	**7 230**	**8 726**	**75**	**Top 15 recipients**	**6 489**	**6 791**	**69**
Kenya	62	97	1	Kenya	173	210	2	Kenya	101	105	1
Mexico	58	94	1	Nepal	120	145	1	Ghana	96	101	1
Sudan	55	84	1	Zambia	115	138	1	Nepal	95	100	1
Zambia	49	78	1	Brazil	110	134	1	Myanmar	91	95	1
Iraq	48	73	1	Ghana	94	114	1	Mongolia	91	95	1
Top 20 recipients	**4 236**	**6 604**	**82**	**Top 20 recipients**	**7 841**	**9 467**	**82**	**Top 20 recipients**	**6 963**	**7 287**	**74**
Total (136 recipients)	**5 140**	**8 014**	**100**	**Total (152 recipients)**	**9 606**	**11 596**	**100**	**Total (158 recipients)**	**9 407**	**9 853**	**100**
Unallocated	230	364		Unallocated	729	879		Unallocated	1 308	1 378	
Total bilateral gross	**5 370**	**8 378**		**Total bilateral gross**	**10 335**	**12 475**		**Total bilateral gross**	**10 715**	**11 230**	

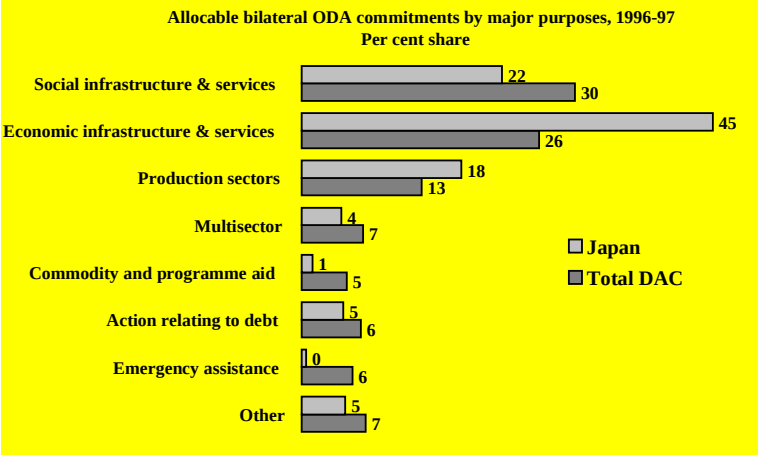
Source: OECD.

Table VII-5. **Bilateral ODA by major purposes**

Commitments, annual averages

Japan	1986-87		1991-92		1996-97		
	$ million	Per cent	$ million	Per cent	$ million	Per cent	Total DAC per cent
Social infrastructure & services	**929**	**16**	**1 953**	**16**	**3 238**	**22**	**30**
Education	408	7	778	6	880	6	10
of which: basic education	-	-	-	-	91	1	1
Health	157	3	205	2	383	3	5
of which: basic health	-	-	-	-	142	1	2
Population programmes	4	0	9	0	26	0	1
Water supply & sanitation	167	3	490	4	1 666	11	7
Government & civil society	38	1	117	1	99	1	3
Other social infrastructure & services	156	3	355	3	185	1	4
Economic infrastructure & services	**2 545**	**45**	**4 653**	**39**	**6 648**	**45**	**26**
Transport & storage	1 157	21	1 970	16	3 573	24	12
Communications	324	6	577	5	346	2	2
Energy	954	17	1 551	13	2 573	17	9
Banking & financial services	9	0	495	4	60	0	1
Business & other services	102	2	60	0	97	1	2
Production sectors	**1 053**	**19**	**2 236**	**19**	**2 581**	**18**	**13**
Agriculture, forestry & fishing	582	10	1 414	12	2 012	14	10
Industry, mining & construction	442	8	787	7	536	4	2
Trade & tourism	29	1	35	0	33	0	1
Other	-	-	-	-	-	-	0
Multisector	**52**	**1**	**127**	**1**	**643**	**4**	**7**
Commodity and programme aid	**655**	**12**	**1 986**	**16**	**178**	**1**	**5**
Action relating to debt	**167**	**3**	**538**	**4**	**668**	**5**	**6**
Emergency assistance	**2**	**0**	**111**	**1**	**72**	**0**	**6**
Administrative costs of donors	**186**	**3**	**411**	**3**	**693**	**5**	**6**
Support to NGOs	**47**	**1**	**24**	**0**	**17**	**0**	**1**
Total bilateral allocable	**5 636**	**100**	**12 038**	**100**	**14 738**	**100**	**100**
For reference							
Total bilateral	*5 842*	*73*	*12 413*	*82*	*15 550*	*645*	*73*
of which: Unallocated	*207*	*4*	*375*	*3*	*812*	*5*	*6*
Total multilateral (a)	*2 108*	*27*	*2 776*	*18*	*2 411*	*13*	*27*
Total ODA commitments	***7 950***	***100***	***15 189***	***100***	***17 961***	***100***	***100***

a. As 1996 multilateral commitments for Japan are not available the full amount for 1997 has been used.



Source: OECD.

Table VII-6. **Burden sharing**

Net disbursements

	Official development assistance 1997		91-92 to 96-97 Ave. annual % change in real terms	Grant element of ODA (commitments) 1996	Share of multilateral aid 1997				ODA to LLDCs Bilateral and through multilateral agencies 1997		Official aid 1997	
					% of ODA		% of GNP					
	$ million	% of GNP		% (a)	(b)	(c)	(b)	(c)	% of ODA	% of GNP	$ million	% of GNP
Australia	1 061	0.28	-1.2	100.0	26.9		0.08		18.8	0.05	0	0.00
Austria	527	0.26	-2.8	96.6	41.9	23.5	0.11	0.06	17.4	0.04	181	0.09
Belgium	764	0.31	-2.7	98.6	42.7	17.6	0.13	0.05	26.8	0.08	59	0.02
Canada	2 045	0.34	-4.0	100.0	40.6		0.14		22.9	0.08	157	0.03
Denmark	1 637	0.97	3.7	100.0	38.3	32.9	0.37	0.32	29.7	0.29	133	0.08
Finland	379	0.33	-11.9	100.0	47.2	34.5	0.15	0.11	24.4	0.08	71	0.06
France	6 307	0.45	-4.2	87.7	24.3	10.3	0.11	0.05	22.0	0.10	308	0.02
Germany	5 857	0.28	-3.9	88.9	37.9	15.2	0.11	0.04	19.4	0.05	660	0.03
Ireland	187	0.31	20.1	100.0	35.6	14.8	0.11	0.05	47.8	0.15	1	0.00
Italy	1 266	0.11	-12.3	98.2	64.1	15.7	0.07	0.02	25.6	0.03	241	0.02
Japan	9 358	0.22	-5.8	78.4	30.0		0.07		18.9	0.04	84	0.00
Luxembourg	95	0.55	15.0	100.0	30.0	14.8	0.16	0.08	29.2	0.16	2	0.01
Netherlands	2 947	0.81	1.4	100.0	27.6	18.9	0.22	0.15	26.9	0.22	7	0.00
New Zealand	154	0.26	0.9	100.0	26.6		0.07		22.8	0.06	0	0.00
Norway	1 306	0.86	0.5	99.2	29.9		0.26		39.4	0.34	55	0.04
Portugal	250	0.25	-2.6	100.0	34.9	10.4	0.09	0.03	66.1	0.16	18	0.02
Spain	1 234	0.23	-0.7	64.9	38.0	12.0	0.09	0.03	16.3	0.04	3	0.00
Sweden	1 731	0.79	-2.5	100.0	30.2	24.8	0.24	0.20	29.7	0.23	148	0.07
Switzerland	911	0.34	-3.1	100.0	36.8		0.13		32.6	0.11	75	0.03
United Kingdom	3 433	0.26	-0.3	100.0	42.4	21.4	0.11	0.06	22.5	0.06	337	0.03
United States	6 878	0.09	-8.9	99.6	28.2		0.02		19.5	0.02	2 516	0.03
Total DAC	48 324	0.22	-4.6	89.7	33.1	23.2	0.07	0.05	22.6	0.05	5 056	0.02
Memo: Average country effort		0.40										

a. Excluding debt reorganisation.

b. Including European Community.

c. Excluding European Community.

Source: OECD.

PRESS RELEASE OF DAC PEER REVIEW OF JAPAN

Since 1978 Japan's aid volume has doubled in real terms making Japan the world's largest donor during the 1990s. However, the aid budget was cut by 10 per cent in an overall fiscal reform announced in 1997. Now, fundamental changes in policy and organisation are underway in Japan's development co-operation; the budget cut has been offset by provisions of new aid, while further proposed cuts have been frozen. A Special Yen Loan Facility to help Asian countries affected by financial crisis may boost aid volume over the next few years.

A review of Japan's development co-operation policies was held on 13 April, by the OECD Development Assistance Committee (DAC) reviewed its policies and programme. The Chairman of the DAC, Mr. Jean-Claude Faure, summarised the Committee's findings:

- Japan's major financial contributions to support packages for Asian countries hit by financial crisis are appreciated. About USD 80 billion has been announced of which about USD 10 billion will be official development assistance (ODA) to be disbursed over the next few years.

- The Committee noted Japan's strong endorsement of the IDS. It is important that all the agencies implementing the Japanese aid programme use the IDS in their programming and working practices.

- To halt the decline in its ODA/GNP ratio which fell from 0.28 per cent in 1995 to 0.22 per cent in 1997, Japan needs to confirm the current freeze on previously proposed aid budget cuts and restore growth to the aid budget.

- Japan's forthcoming new medium-term policy statement for ODA will re-orient aid policies and management. Country strategies should improve co-ordination within the Japanese aid system, in line with the new IDS, with participation by recipient countries, other donors, and non-governmental organisations (NGOs). Country strategy design teams are being sensitised to the IDS before going out to the field; and lessons learned from the seven IDS pilot countries will be mainstreamed in the overall ODA programme.

- The Committee welcomed proposals to foster stronger co-ordination in ODA, through the strengthening of the role of the Ministry of Foreign Affairs. The proposed country strategies will be important for ensuring this co-ordination and the Committee urged that these be produced as rapidly as possible, and should cover the programmes of implementing agencies.

- Reform in the Japanese ODA system and the openness of the Japanese government to ideas for improving the effectiveness of assistance programmes is much appreciated. Aid administration and staffing needs to be further strengthened by enhancing the role of implementing agencies; decentralising and delegating responsibilities to field offices; improving aid co-ordination; and increased NGO involvement.

- As part of the administrative reform, the merger of Overseas Economic Co-operation Fund (OECF) and Export-Import Bank of Japan (JEXIM) is targeted for October 1999. It will be important for the integrity of ODA to be preserved. Plans call for OECF and JEXIM to have separate policies and accounts, with the ODA contributions to be transparent.

- A greater poverty focus implies more emphasis on poverty, gender and governance in Japan's aid programmes. The Committee encouraged Japan to give more emphasis to sectoral policy dialogue and the socio-economic impacts of its aid projects.

- Coherence between development co-operation and other economic policies of Japan affecting trade and investment vis-à-vis developing countries needs to be systematically promoted.

The Japanese Delegation was led by Mr. Hideaki Domichi, Deputy Director-General, Economic Co-operation Bureau, Ministry of Foreign Affairs. The examining countries were France and the United Kingdom.

Japan's aid at a glance

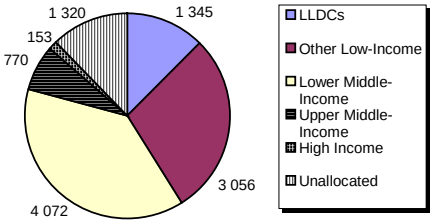
JAPAN

Gross Bilateral ODA, 1996-97 average, unless otherwise shown

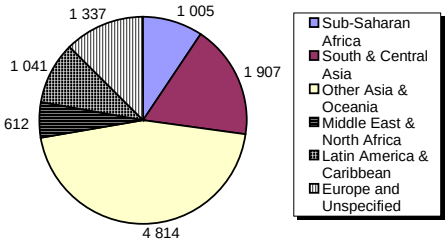
Net ODA	1996	1997	Change 1996/97
Current (US $m)	9 439	9 358	-0.9%
Constant (1996 US $m)	9 439	10 347	9.6%
In Yen (billion)	1 027	1 132	10.3%
ODA/GNP	0.20%	0.22%	
Bilateral share	87%	70%	
Net Official Aid (OA)			
Current (US $m)	184	84	-54.2%

Top Ten Recipients	(US $m)
1 Indonesia	1 208
2 China	963
3 Thailand	760
4 India	741
5 Philippines	714
6 Malaysia	363
7 Pakistan	327
8 Bangladesh	297
9 Sri Lanka	211
10 Viet Nam	186

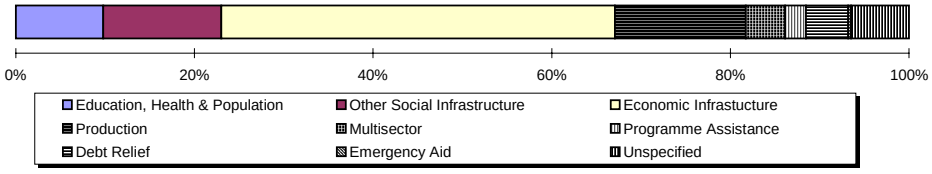
By Income Group (US $m)



By Region (US $m)

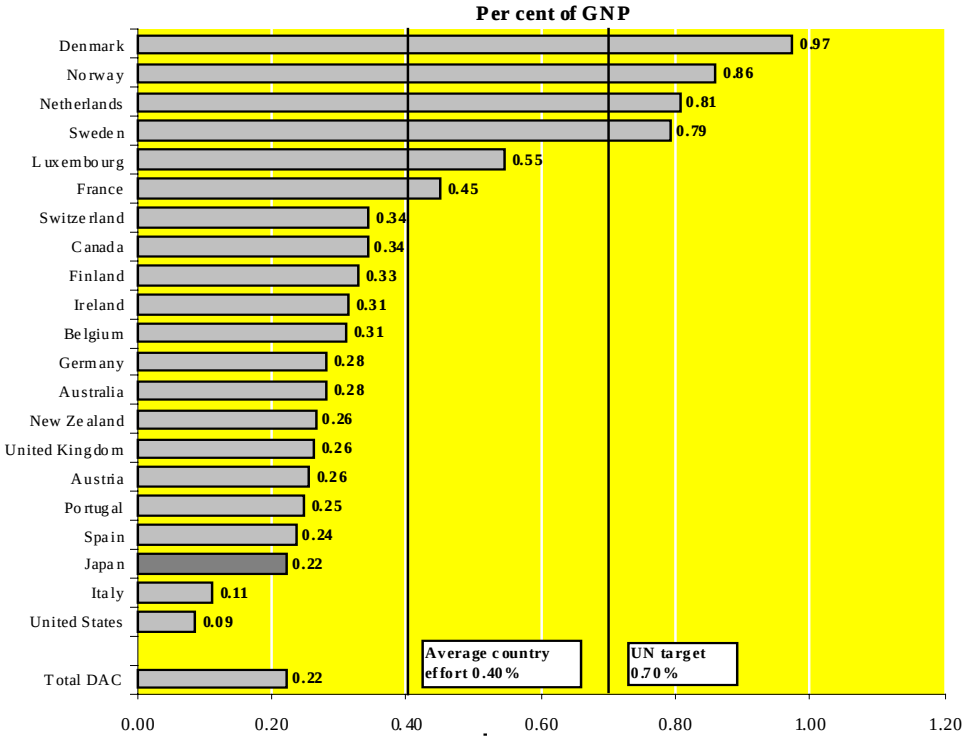


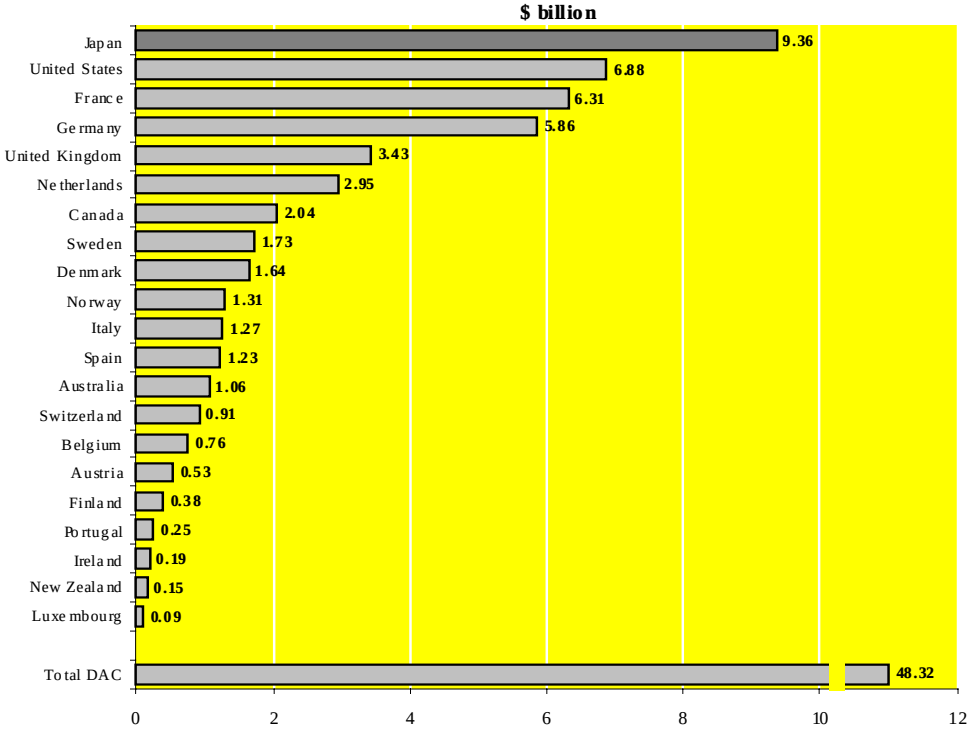
By Sector (95-96)



Source: OECD

Net ODA from DAC countries in 1997





Source: OECD.

DESCRIPTION OF KEY TERMS

The following brief descriptions of the main development co-operation terms used in this publication are provided for general background information. Full definitions of these and other related terms can be found in the "Glossary of Key Terms and Concepts" published in the DAC's annual Development Co-operation Report.

ASSOCIATED FINANCING: The combination of OFFICIAL DEVELOPMENT ASSISTANCE, whether GRANTS or LOANS, with any other funding to form finance packages.

DAC (DEVELOPMENT ASSISTANCE COMMITTEE): The committee of the OECD which deals with development co-operation matters. A description of its aims and a list of its Members are given at the front of this volume.

DAC LIST OF AID RECIPIENTS: A two-part List of Aid Recipients was introduced by the DAC with effect from 1 January 1994. Part I of the List is presented in the following categories (the word "countries" includes territories):

LLDCs: Least Developed Countries. Group established by the United Nations. To be classified as an LLDC, countries must fall below thresholds established for income, economic diversification and social development.

Other LICs: Other Low-Income Countries. Includes all non-LLDC countries with per capita GNP less than USD 765 in 1995 (World Bank Atlas basis).

LMICs: Lower Middle-Income Countries, i.e. with GNP per capita (World Bank Atlas basis) between USD 766 and USD 3 035 in 1995.

UMICs: Upper Middle-Income Countries, i.e. with GNP per capita (World Bank Atlas basis) between USD 3 036 and USD 9 385 in 1995.

HICs: High-Income Countries, i.e. with GNP per capita (World Bank Atlas basis) more than USD 9 385 in 1995.

Part II of the List comprises "Countries in Transition". These comprise: i) more advanced Central and Eastern European Countries and the New Independent States of the former Soviet Union; and ii) more advanced developing countries.

DEBT REORGANISATION: Any action officially agreed between creditor and debtor that alters the terms previously established for repayment. This may include forgiveness, rescheduling or refinancing.

DISBURSEMENT: The release of funds to, or the purchase of goods or services for a recipient; by extension, the amount thus spent. They may be recorded **gross** (the total amount disbursed over a given accounting period) or **net** (less any repayments of LOAN principal during the same period).

EXPORT CREDITS: LOANS for the purpose of trade and which are not represented by a negotiable financial instrument. Frequently these LOANS bear interest at a rate subsidised by the government of the creditor country as a means of promoting exports.

GRANTS: Transfers made in cash, goods or services for which no repayment is required.

GRANT ELEMENT: Reflects the **financial terms** of a commitment: interest rate, maturity and grace period (i.e. the interval to the first repayment of principal). The grant element is nil for a LOAN carrying an interest rate of 10 per cent; it is 100 per cent for a GRANT; and it lies between these two limits for a LOAN at less than 10 per cent interest.

LOANS: Transfers for which repayment is required. Data on **net loans** include deductions for repayments of principal (but not payment of interest) on earlier loans.

OFFICIAL AID: Flows which meet the conditions of eligibility for inclusion in OFFICIAL DEVELOPMENT ASSISTANCE, except that the recipients are on Part II of the DAC LIST OF AID RECIPIENTS.

OFFICIAL DEVELOPMENT ASSISTANCE (ODA): GRANTS or LOANS to countries and territories on Part I of the DAC LIST OF AID RECIPIENTS (developing countries) provided by the official sector with the promotion of economic development and welfare as the main objective and which are at concessional financial terms (if a LOAN, having a GRANT ELEMENT of at least 25 per cent).

OTHER OFFICIAL FLOWS (OOF): Transactions by the official sector with countries on the DAC LIST OF AID RECIPIENTS which do not meet the conditions for eligibility as OFFICIAL DEVELOPMENT ASSISTANCE or OFFICIAL AID.

PARTIALLY UNTIED AID: OFFICIAL DEVELOPMENT ASSISTANCE (or OFFICIAL AID) for which the associated goods and services must be procured in the donor country or among a restricted group of other countries, which must however include substantially all recipient countries.

PRIVATE FLOWS: Consist of the following flows at market terms financed out of private sector resources:

> **Direct investment**: Investment made to acquire or add to a lasting interest in an enterprise in a country on the DAC LIST OF AID RECIPIENTS.
>
> **Bilateral portfolio investment:** Includes bank lending, and the purchase of shares, bonds and real estate.
>
> **Multilateral portfolio investment**: This covers the transactions of the private non-bank and bank sector in the securities issued by multilateral institutions.
>
> **Private export credits**: See EXPORT CREDITS.

TECHNICAL CO-OPERATION: Includes both i) GRANTS to nationals of recipient countries receiving education or training at home or abroad, and ii) payments to consultants, advisers and similar personnel as well as teachers and administrators serving in recipient countries.

TIED AID: Official GRANTS or LOANS where procurement of the goods or services involved is limited to the donor country or to a group of countries which does not include substantially all recipient countries.

UNTIED AID: OFFICIAL DEVELOPMENT ASSISTANCE (or OFFICIAL AID) for which the associated goods and services may be fully and freely procured in substantially all countries.

VOLUME: Unless otherwise stated, data are expressed in current United States dollars. Data in national currencies are converted into dollars using annual average exchange rates. To give a truer idea of the volume of flows over time, some data are presented in **constant prices and exchange rates**, with a reference year specified. This means that adjustment has been made to cover both inflation between the year in question and the reference year, and changes in the exchange rate between the currency concerned and the United States dollar over the same period.

OECD PUBLICATIONS, 2, rue André-Pascal, 75775 PARIS CEDEX 16
PRINTED IN FRANCE
(43 1999 07 1 P) ISBN 92-64-17085-5 – No. 50773 1999