

# JAPAN

Development Assistance Committee (DAC)  
PEER REVIEW



ORGANISATION FOR ECONOMIC CO-OPERATION AND  
DEVELOPMENT

## ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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### The Peer Review Process

The DAC conducts periodic reviews of the individual development co-operation efforts of DAC members. The policies and programmes of each member are critically examined approximately once every four or five years. Five members are examined annually. The OECD's Development Co-operation Directorate provides analytical support and is responsible for developing and maintaining the conceptual framework within which the Peer Reviews are undertaken.

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, as well as civil society 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. Field visits assess how members are implementing the major DAC policies, principles and concerns, and review operations in recipient countries, particularly with regard to poverty reduction, sustainability, gender equality and other aspects of participatory development, and local aid co-ordination.

The Secretariat then prepares a draft report on the member's development co-operation which is the basis for the DAC review meeting at the OECD. At this meeting senior officials from the member under review respond to questions formulated by the Secretariat in association with the examiners.

This review contains the Main Findings and Recommendations of the Development Assistance Committee and the report of the Secretariat. It was prepared with examiners from Denmark and Germany for the Peer Review on 20 May 2010.

In order to achieve its aims the OECD has set up a number of specialised committees. One of these is the Development Assistance Committee, whose members have agreed to secure an expansion of aggregate volume of resources made available to developing countries and to improve their effectiveness. To this end, members periodically review together both the amount and the nature of their contributions to aid programmes, bilateral and multilateral, and consult each other on all other relevant aspects of their development assistance policies.

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

## ACRONYMS

<b>ADRC</b>	Asian Disaster Risk Reduction Centre
<b>APIC</b>	Association for the Promotion of International Co-operation
<b>BIT</b>	Bilateral investment treaty
<b>CAP</b>	Country Assistance Programme
<b>CAP</b>	Consolidated Appeals Process
<b>CDDE</b>	Capacity Development for Development Effectiveness
<b>DAC</b>	Development Assistance Committee
<b>DCG</b>	Donor Co-ordination Group
<b>DCR</b>	Development co-operation report
<b>DEVCOM</b>	Network of Development Communicators
<b>DRR</b>	Disaster risk reduction
<b>EPA</b>	Economic partnership agreement
<b>ERD</b>	Economic Relations Division, Ministry of Finance, Bangladesh
<b>ERD</b>	External Resource Division, Ministry of Finance, Kenya
<b>FY</b>	Fiscal year
<b>FAO</b>	Food and Agriculture Organization
<b>FILP</b>	Fiscal Investment and Loan Programme
<b>GHD</b>	Good Humanitarian Donorship principles
<b>GNI</b>	Gross national income
<b>GoB</b>	Government of Bangladesh
<b>GoJ</b>	Government of Japan
<b>GoK</b>	Government of Kenya
<b>HAC</b>	Harmonisation, Alignment and Co-ordination Group
<b>HAP</b>	Harmonisation action plan
<b>HIPC</b>	Heavily indebted poor country
<b>ICRC</b>	International Committee of the Red Cross
<b>IFRC</b>	International Federation of the Red Cross and Red Crescent Societies

<b>JBIC</b>	Japan Bank for International Co-operation
<b>JDR</b>	Japanese Disaster Relief
<b>JETRO</b>	Japan External Trade Organisation
<b>JICA</b>	Japan International Cooperation Agency
<b>JOCV</b>	Japan Overseas Co-operation Volunteer
<b>JPF</b>	Japan Platform
<b>JPY</b>	Japanese Yen
<b>KCG</b>	Kenya Consultative Group
<b>KJAS</b>	Kenya Joint Assistance Strategy
<b>LCG</b>	Local Consultative Group
<b>LDC</b>	Least developed country
<b>LGED</b>	Local Government Engineering Department
<b>LIC</b>	Low income country
<b>MAFF</b>	Ministry of Agriculture, Forestry and Fisheries
<b>MDGs</b>	Millennium Development Goals
<b>METI</b>	Ministry of Economy, Trade and Industry
<b>MIC</b>	Middle income country
<b>MoF</b>	Ministry of Finance
<b>MoFA</b>	Ministry of Foreign Affairs
<b>MTP</b>	Medium term policy
<b>NEXI</b>	Nippon Export and Investment Insurance
<b>NGO</b>	Non-governmental organisation
<b>OCHA</b>	Office for Co-ordination of Humanitarian Affairs
<b>ODA</b>	Official development assistance
<b>OECC</b>	Overseas Economic Co-operation Council
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>OOF</b>	Other official flows
<b>PCD</b>	Policy coherence for development
<b>PCI</b>	Pacific Consultants International Co.
<b>PIU</b>	Project Implementation Unit
<b>PRSP</b>	Poverty reduction strategy paper
<b>RBM</b>	Results-based management
<b>SDF</b>	Self Defence Force
<b>SMASSE</b>	Strengthening Maths and Science in Secondary Education

<b>SWAp</b>	Sector wide approach
<b>STEP</b>	Special Terms for Economic Partnership
<b>TICAD</b>	Tokyo International Conference on African Development
<b>UMIC</b>	Upper Middle Income Country
<b>UN</b>	United Nations
<b>UNDP</b>	United Nations Development Programme
<b>UNICEF</b>	United Nations Children’s Fund
<b>UNFPA</b>	United Nations Population Fund
<b>UNHCR</b>	The Office of the United Nations High Commissioner for Refugees
<b>USD</b>	United States Dollar

**Exchange rate used:**

2007: USD 1 = JPY 117.8

2008: USD 1 = JPY 103.5

2009: USD 1 = JPY 103

### Japan's Aid at a glance

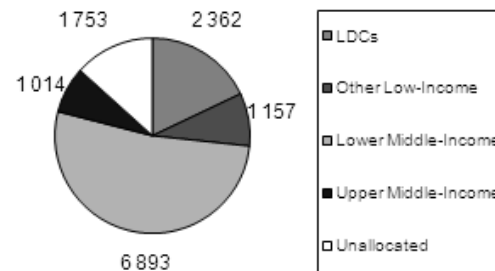
#### JAPAN

Gross Bilateral ODA, 2007-08 average, unless otherwise shown

Net ODA	2007	2008	Change 2007/08
Current (USD m)	7 679	9 579	24.7%
Constant (2007 USD m)	7 679	8 502	10.7%
In Yen (billion)	905	991	9.6%
ODA/GNI	0.17%	0.19%	
Bilateral share	75%	71%	

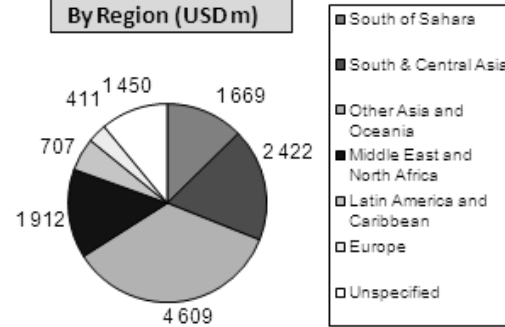
By Income Group (USD m)

Clockwise from top

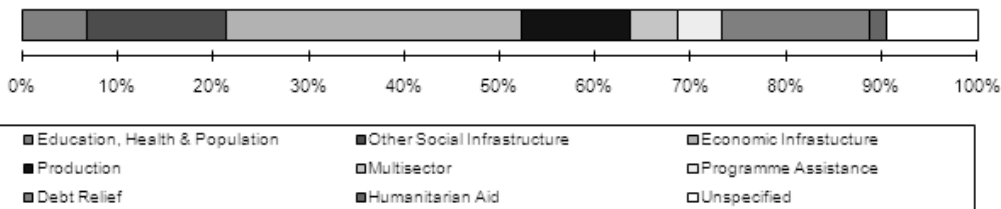


Top Ten Recipients of Gross ODA (USD million)	
1 Iraq	1 402
2 China	1 196
3 Indonesia	1 191
4 India	949
5 Viet Nam	780
6 Philippines	599
7 Bangladesh	540
8 Tanzania	396
9 Turkey	354
10 Sri Lanka	288
Memo: Share of gross bilateral ODA	
Top 5 recipients	42%
Top 10 recipients	58%
Top 20 recipients	69%

By Region (USD m)



By Sector







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## THE DAC’S MAIN FINDINGS AND RECOMMENDATIONS

### Overall framework for development co-operation

#### *Legal and political orientations*

##### *An approach grounded in experience*

Japan has an impressive history as a leading international donor. The philosophy behind Japanese development co-operation is grounded in the country’s own development experience. Japan’s *ODA Charter* and *Medium Term Policy* clearly set out the priorities and principles for Japanese development co-operation. These include supporting partner countries’ “self-help” efforts; the importance of economic growth and market-orientated economies; avoiding the use of development co-operation for military purposes; and avoiding interfering in partners’ political affairs. Japan emphasises economic growth and focuses on major infrastructure projects. The addition of the “human security” perspective has helped to promote a poverty dimension within an otherwise growth-orientated outlook. This has helped Japan to reflect better the Millennium Development Goals (MDGs) and pro-poor growth in its approach.

The overarching vision for Japanese development co-operation is “to contribute to the peace and development of the international community, and thereby help to ensure Japan’s own security and prosperity.” Japan sees international development co-operation as in its own long-term interests and as an important component of its wider foreign policy. Japan considers its development co-operation as an important tool for building friendships with other countries. It also wants its aid to benefit the Japanese economy in the medium term. Despite this, the volume of Japanese development assistance (excluding debt relief) has declined from a peak in 2000. In 2001, Japan lost its prized position as the largest bilateral donor in volume terms. The DAC welcomed the 10% increase in Japan’s development co-operation budget in 2008 compared to 2007 but noted that preliminary figures for 2009 indicate that there has since been a 10% decline, cancelling out gains made the previous year.

##### *An opportunity for renewal*

Although there is stability in Japan’s philosophy and approach to development co-operation, there have also been significant positive changes since the 2003 DAC peer review (Annex 1, Part 2). In particular, it has gone some way towards addressing the 2003 peer review’s recommendations on considering debt sustainability, moving towards a country-based rather than instrument-based approach and delegating more responsibility to its implementation agency. However, there has been less progress in other areas, including increasing aid volume and policy coherence for development. So although the

Japanese development co-operation system has started to change and continues to evolve, the pace is slower in some areas than in others. The creation of the “New JICA” (Japan International Cooperation Agency) in 2008 was a fundamental organisational change. Furthermore, in 2009 Japan elected a new government which now has an opportunity to build on current progress in improving Japan’s development co-operation system. Japan should grasp this opportunity by renewing the official policy framework for Japanese development co-operation; indeed, the *Medium Term Policy* is due to be updated. Since the current version does not make specific reference to the aid effectiveness agenda, or policy coherence for development, an update should fill these gaps.

### *Responding to cross-cutting and new challenges*

Japan has made mixed progress in mainstreaming cross-cutting issues. Its good progress and prioritisation of gender issues could provide lessons for making similar inroads in other areas, such as environment and governance. One obvious lesson from its gender work is the positive impact of a written strategy which has both high-level endorsement and clear operational-level implications. Japan is increasing its engagement in situations of poor governance and in fragile states. Though it has worked to support its staff in peacebuilding, Japan does not have a strategy or policy framework guiding its engagement in fragile situations. Its focus on peacebuilding does not guide staff on how to engage in highly fragile contexts where governance is especially weak, but which are not actually conflict or post-conflict situations. Written strategies that address the challenges and practicalities of working in such situations could be helpful for staff.

### *The importance of building public support*

Japan places a high priority on public backing for development co-operation. The proportion of the public supporting an increase in development assistance has grown since 2004. Despite this progress, building and maintaining public support must remain a priority for Japan and the government will need to take a proactive approach to make further progress. It is therefore surprising that despite acknowledging the importance of public support, the new government has identified the communication and public relations budget for possible cuts. A comprehensive and funded public support strategy, preferably endorsed by the whole-of-government, would help Japan focus its communication activities and therefore build on the gains already made in public awareness while making the best use of available resources. Crucially, any strategy should outline a more pro-active approach to engaging with all relevant stakeholders. In particular, engaging parliamentarians on a strategic or policy level could enhance parliamentary involvement. Currently this involvement consists of highly specific parliamentary questions; ideally there should be more substantive debate and scrutiny – thus creating allies at the same time as reassuring the public on the accountability and effectiveness of Japanese development co-operation.

### *Policy coherence for development*

#### *Distinguishing coherent aid policies from policy coherence for development*

Japan endorsed the 2008 *OECD Declaration on Policy Coherence for Development*. Promoting policy coherence for development means that policies – both domestic and international – should be coherent and mutually supportive of developing countries’

development objectives, or at least not undermine them. Japan has improved the coherence and co-ordination of its development co-operation policies and this is especially important in a context where numerous ministries and agencies finance and implement aid-related activities. However, Japan has not broadened out its efforts to ensure that all relevant policies support internationally-agreed development goals. Agriculture, fisheries, migration and the environment have been widely discussed in the OECD as policy areas that can have an impact on developing countries, and require attention and analysis in Japan. Given its strong basis in promoting coherence in general, Japan is in a good position for building an approach to policy coherence *for development*.

### *Laying the foundations for policy coherence for development*

Japan lacks the three key building blocks for policy coherence for development. Firstly, it has no explicit policy statement making policy coherence for development a whole-of-government priority. Secondly, although Japan's cabinet-level Overseas Economic Co-operation Council – chaired by the Prime Minister – plays a policy co-ordination role, it is not specifically tasked to promote coherence in favour of development. Thirdly, systems for monitoring, analysing and reporting coherence issues are limited. There is also very little capacity and awareness within the Japanese system of the need to analyse and monitor the potential impact of its domestic and foreign policies on developing countries. Japan should start to implement its pledge by putting the first building block in place – political commitment and a clear policy statement – and strengthen the other two building blocks. This could also help raise awareness and understanding of the issue. Japan could also use its existing co-ordination systems to achieve better policy coherence for development.

## **Recommendations**

To build on its strong strategic framework for development co-operation Japan should:

- Update its policy framework, to refer specifically to Japan's commitment to aid and development effectiveness and to policy coherence for development. The process could also be used to increase the substantive engagement of members of the Diet (parliamentarians) and other stakeholders.
- Use a policy statement on policy coherence for development to raise awareness, and improve the understanding of the concept amongst government ministries and agencies, the Diet and the wider public. It can then use its existing inter-ministerial co-ordination mechanisms to implement and monitor this policy statement.
- Strengthen capacity within the government for monitoring, analysing and reporting coherence issues and make more use of independent analytical capacity (research institutes, universities) for exploring the development impact of Japanese policies. Japan should share its lessons from progress in this area with other DAC members.
- Adapt its development co-operation to suit situations of conflict, fragility and poor governance, using written strategies drawing on Japan's own experience and the lessons collected by the wider donor community.
- Write and adequately fund a strategy, preferably whole-of-government, to increase public awareness of development and to support a more proactive approach to communication and the engagement of all major stakeholders.

## Aid volume channels and allocations

### *The need to increase aid volume and meet commitments*

In 2008 Japan increased the net volume of its official development assistance (ODA) by more than 10% in real terms over 2007 levels seemingly bringing an end to an extended period of decline. At USD 9.6 billion, Japan's ODA budget was the fifth largest amongst DAC donors in 2008. Measured as a proportion of its gross national income (GNI), Japan's ODA also increased from 0.17% to 0.19% over the period. However, preliminary figures for 2009 indicate that Japan's ODA has since decreased by around 10% in real terms, cancelling out the gains made in the previous year and bringing ODA as a proportion of GNI down to 0.18% in 2009. This is well below the DAC average of 0.31% and a long way from the United Nations' 0.7% target. With only one year to go, in 2008 Japan was still USD 4 billion short of its Gleneagles commitment to raise its 2004 volume of aid by a total of USD 10 billion between 2005 and 2009. Japan has made use of its annual supplementary budget to achieve temporary increases in its development co-operation budget. While this approach has been helpful in the short term, it makes future aid flows unpredictable and complicates planning. Japan should aim to increase its development assistance funding based on a clear and strategic forward spending plan, with the short-term target of re-attaining its 1990s ODA/GNI peak of 0.28%. Setting a timeline for achieving this would help Japan move towards its internationally-agreed targets, including the Gleneagles commitment and the UN 0.7% ODA/GNI target. Further, in 2008 Japan slipped below the minimum 86% grant element agreed in the 1978 DAC Recommendation on Terms and Conditions of Aid, attaining an 85.1% average grant element across its ODA portfolio that year. Japan should rectify this non-compliance with this aspect of the Recommendation.

Traditionally, Japan has focused its development co-operation in Asia, particularly East Asia. However, more recently it has made a series of commitments to increase the volume of its aid to Africa. Japan's promise to double aid to Africa by 2007 was met, in large part, by exceptional levels of debt relief. It then made a second "doubling" commitment in 2008, which excluded debt relief. This target was based on a doubling from 2003-2007 average disbursements, and was already nearly met in 2008. In actual terms it will involve a small increase between 2008 and 2012. Japan is encouraged to continue to scale up its support to Africa, whilst also retaining its strong and greatly-appreciated presence in East Asia. This would also enable it to achieve its Gleneagles commitment, although later than originally planned. This will mean increasing its overall development assistance envelope.

### *Japan's preference for bilateral channels*

Japan has a strong preference for bilateral aid, which accounted for 84% of its aid in 2008. This preference reflects concerns about the visibility of Japanese aid and its importance for political leverage and as a foreign policy instrument. Japan uses three main channels or "schemes" for its bilateral development assistance: (i) loans, which accounted for 47% of Japan's gross bilateral ODA in 2008; (ii) grants (40%); and (iii) technical co-operation (13%). The relatively high use of loans reflects the fact that Japan finds it easier to mobilise resources for loans than for grants. Japan also believes that the requirement to repay encourages recipients to be fiscally more responsible and to allocate scarce resources more efficiently, which links with its emphasis on building partners'



self-reliance. However, the gross volume of loans has not grown significantly in recent years, since Japan has re-scheduled and forgiven some debts and become more conscious of partners' ability to repay when agreeing new loans.

#### *Limited but complex support to non-governmental organisations*

Development assistance which is channelled *to* or *through* non-governmental organisations (NGOs) is a small component of the Japanese bilateral aid budget, representing around 3% in 2008. Japan tends not to make use of either Japanese or local NGOs as implementing partners. Where it provides support *to* NGOs, it is generally earmarked for specific and small-scale projects. At present, despite the relatively small volumes involved, there are many different NGO funding schemes, some run by the Ministry of Foreign Affairs and some by JICA. Each of these schemes is managed differently, involving very detailed and time-consuming procedures. Only small sums are available for NGOs in partner countries. The new government has expressed an interest in increasing NGO involvement in Japanese development co-operation, acknowledging their comparative advantage in some circumstances. To get the most out of these plans, Japan should agree a written strategy that harmonises and simplifies the numerous funding schemes, and sets out how Japan will continue to increase its dialogue and engagement with both Japanese and partner country NGOs.

#### *Making multilateral support more strategic*

On average, around 17% of Japan's total gross official development assistance was allocated through multilateral institutions between 2004 and 2008, reaching USD 2.4 billion in 2008. The World Bank group was the largest beneficiary, receiving about 42% of Japan's multilateral ODA between 2004 and 2008 on average. Over the same period, Japan reduced the volume of its multilateral funding to UN agencies by 54%. It plans to reduce further its voluntary contributions to UN agencies in 2010. Japan is encouraged to resume its support to UN agencies in ways that would strengthen their efficiency and effectiveness. The DAC encourages Japan to agree a written strategy to guide all government departments involved in multilateral financing on:

- *Which organisations to support and at what volumes.* Japan's allocation decisions should be based on (i) performance, measured by existing multilateral performance assessments and particularly through multilateral organisations' own performance data; and (ii) whether organisations' specialities and areas of focus are aligned with Japan's priorities.
- *The balance between earmarked and core support.* Within its voluntary contributions, Japan tends to prefer earmarked to core multilateral funding. This reflects the wish to respond to political priorities, and to be able to link results to Japanese funding. Japan often requires separate and additional reporting for its earmarked funds and in some cases is involved in approving individual project concept notes. However, this approach carries high transaction costs – for both Japan and the multilateral organisations involved – and may also duplicate the accountability structures of the multilateral organisations.

## Recommendations

To ensure it meets its commitments and gets the most out of its ODA, Japan should:

- Set a timeline for increasing volumes to regain ground lost over the previous decade and make progress towards meeting the UN target of 0.7% ODA/GNI and other existing commitments. To support this Japan should obtain political backing for an indicative multi-year framework for all of ODA and broadly how it will be allocated.
- Review its ODA portfolio to ensure that it meets the requirements of the DAC Recommendation on the Terms and Conditions of Aid in all future years.
- Draw up a clear strategy for supporting NGOs, including (i) harmonised and simplified NGO funding schemes and (ii) how Japan will continue to increase its dialogue and engagement with both Japanese and partner country NGOs.
- Agree a formal strategy for multilateral aid to help to guide allocation decisions. Give more weight to core funding of those multilaterals which are effective and aligned to Japan's own priorities rather than earmarked funding and the use of separately administered funds.

## Organisation and management

Although Japan's development co-operation set-up involves over 13 ministries and agencies, the system is co-ordinated and has a central hub. The *ODA Charter* explicitly gives the Ministry of Foreign Affairs (MoFA) the co-ordination role for development co-operation, and around two-thirds of Japanese ODA is managed through this ministry and the new JICA. The other major player in the system is the Ministry of Finance (MoF) which is responsible for Japan's contributions to the World Bank, International Monetary Fund and regional development banks.

### *Major reform at the core of the system*

Against this background, there has been major organisational reform to Japan's development co-operation system since the last peer review. The new JICA was established in October 2008. It brings together parts of the former Japan Bank for International Co-operation (JBIC), which managed Japan's ODA loans, with responsibilities for some grants previously managed by MoFA. JICA has been transformed from an agency focused on implementing technical co-operation to one which now co-ordinates all three of Japan's previously disconnected development assistance channels or "schemes" – loans, grants and technical co-operation. The merger puts Japan in a better position to improve both the efficiency and effectiveness of its development co-operation system, particularly by linking up these three schemes. There is no doubt that the merger is in its infancy and that the two different organisational cultures are still adjusting. An organisational reform of this scale will take time to reap benefits and is bound to face challenges in the early years which will need to be managed closely. However, the process and progress to date constitute a significant achievement.

MoFA's International Co-operation Bureau was also restructured in 2009 – it is now divided by region rather than by loans, grants and technical co-operation. This encourages officials to look more holistically at Japan's development co-operation activities in each country. Although very recent, this re-organisation, in addition to changes at JICA, is

helping Japan to move away from an instrument-based towards a country-based approach.

### *Building on organisational reforms to make further progress*

Japan should consolidate and build on its reforms to date in two main areas. Firstly, it could further increase the efficiency of its development co-operation system by stepping up existing efforts to find “synergies” between the three schemes. This could include further harmonisation of the different schemes’ procedures; streamlining the most time-consuming procedures; and reducing the layers and levels of approval in some cases. Japan’s grant aid includes many different sub-schemes, each involving different procedures. For example, the variety of procedures involved in Japan’s support to NGOs should be consolidated and streamlined. This would make Japan a more reliable, nimble and responsive development partner. To realise this potential it will also need to give staff sufficient training and support in using the new schemes.

Secondly, Japan could re-visit both the horizontal and vertical division of labour in its development co-operation system. The horizontal division of labour – *i.e.* between MoFA and JICA – has become clearer. Generally, MoFA sets the policies and JICA implements them. However, despite handing over some grant management to JICA in 2008, MoFA still manages around 30% of ODA grants. Japan should consider delegating more implementation responsibilities to JICA, leaving MoFA to focus on policy, co-ordination and overall accountability. The vertical division of labour – *i.e.* between headquarters and the field – should also be re-visited. Partners perceive that the bottlenecks in project approval occur in headquarters rather than in the field. While field offices have some delegated authority for some schemes, headquarters is still involved at numerous stages for others. Delegating more authority to the field would improve the responsiveness, efficiency and effectiveness of Japanese development co-operation and is in line with JICA’s long-standing objective to become a more field-orientated organisation. Decentralising experienced people to the field and continuing to increase the role of its high quality local staff – while investing in the capacity of all staff to make use of delegated authority – would help make this happen.

### *Accountability, evaluation and results-based management*

Japan places a high priority on domestic reporting and accountability. It has a comprehensive system of internal evaluation for Japanese development co-operation. An important and distinctive feature of Japan’s project evaluations is the high degree to which they are conducted jointly with partner country officials. MoFA and JICA are responsible for the majority of aid-related evaluations and their respective roles are clear. However, there are 11 other ministries and agencies involved in Japanese development co-operation, many of which conduct their own evaluations. This makes co-ordination challenging and MoFA needs the tools and authority to ensure appropriate coverage and standards in all aid-related evaluations, including those led by other ministries. Within MoFA the evaluation function is located in the Office for Evaluation and Public Relations, which reports to the Aid Policy and Management Division. This raises questions about the independence and professional oversight of the evaluation function.

At project level, Japan has some of the building blocks for results-based management (RBM) in place and seeks to ensure they are applied in practice. However, at programme level, RBM is still in the early stages. Japan could build on its project level experience to

ensure its overall country programmes are designed and managed for results and to contribute to a greater whole. The inclusion of clear overall objectives in more recent Country Assistance Plans (CAPs) is an indication that Japan is moving in this direction and Japan should ensure that all of its new CAPs have clear and measurable objectives that are aligned to partners' objectives and to which individual projects are designed to contribute. Performance and research information should also be collated and analysed in order to inform high-level policy, decision makers, and working-level staff. For both groups, learning from failures as well as successes is important.

## **Recommendations**

To build on the progress achieved in its major organisational change Japan should:

- Review the horizontal and vertical divisions of labour within the system, i.e. whether MoFA can delegate more implementation responsibilities to JICA, and whether they can both delegate more decision-making authority to the field.
- Harmonise and streamline its procedures across the three main channels or schemes: grants, loans and technical co-operation. Within the grant scheme, Japan should further harmonise and streamline the procedures for sub-schemes, most notably its various NGO funding procedures.
- Invest in increasing staff capacity – particularly through training – to ensure field teams have the competence and support to manage all three channels and to find synergies among them. Ensure training and documents are accessible to all key people in the field, including non-Japanese speakers.
- Relocate the evaluation function in MoFA to ensure its independence and equip it with the tools and authority to ensure appropriate coverage and standards of all aid-related evaluations, including those led by other ministries.

## **Practices for better impact**

### *Implementing aid effectively*

Japan has endorsed both the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action. Japan is at the forefront of donor efforts in some aspects of the aid effectiveness agenda, such as capacity development and triangular co-operation. However, with other aspects it is more cautious, such as harmonisation and co-ordinated funding mechanisms. Japan is eager to ensure that while making its aid more effective and achieving development results, it is still able to retain the distinctiveness of Japanese development co-operation. Japan has expressed concern that harmonisation may lead to “homogenisation” and a reduction in “choice” for partners. The DAC reminds Japan that co-ordination led by the partner country should increase partner control, allowing them to draw on the comparative strengths of each donor and thereby reducing gaps and duplication. Japan should support its staff to build on the progress already made in some partner countries in increasing the harmonisation and alignment of Japanese development co-operation. When Japan has been able to take a programmatic approach – where it has separate projects but they are well situated within a partner's overall programme - this has worked well. Making this approach more systematic would help to improve Japan's aid effectiveness and make it a better international partner, particularly in those countries in which a large number of donors are active.

Japan more than doubled its use of partners' public financial management and procurement systems between 2005 and 2007. This is commendable. Japan can continue to improve against this aid effectiveness measure by ensuring both its grants and loans – and both its small and large projects – all make use of country systems. Japan is increasingly aligning its support to partners' nationally-defined priorities, but with less than half of its support provided directly to partner budgets in 2007, it needs to make greater efforts to meet the Paris Declaration's 85% target for this indicator.

Development partners see Japan's involvement in aid co-ordination mechanisms as extremely important and beneficial, especially where it takes a leading role. However, some noted that its leadership could be strengthened by closer engagement at the policy level – including in regulatory reform or governance issues – in the sectors in which it plays a major role. Japan could have greater impact and share its very relevant experience and perspectives by exercising its voice more robustly in all the aid co-ordination forums in which it participates.

Japan has started to take on an important bridge-building role within the international development community. It has sought to engage emerging Asian donors in policy debates and in aid co-ordination forums both at headquarters and field level. In addition, Japan's experience in and use of triangular co-operation provides lessons for other donors in encouraging and supporting South-South co-operation. The DAC welcomes Japan's continued leadership role in these areas.

### *The need for further progress on untying aid*

Japan has made some progress in untying its ODA, but the issue is complex. The DAC 2001 Recommendation on Untying Official Development Assistance commits members to untie aid to the least developed countries (LDCs) and, more recently, to the heavily indebted poor countries (HIPC). Japan reported that 84% of its ODA was untied in 2008; this was above the DAC average of 81% that year and was an increase of 4% on the figures it reported in 2007. However, Japan did not report the tying status of 13% of its aid in 2008 (an improvement on the 15% unreported in 2007). Secondly, Japan considers a project to be untied even if it requires the primary contractor to be Japanese. It justifies this on the grounds that the primary contractor is the project manager and is able to sub-contract freely. However, where primary contractors have to be Japanese and can act as both agents and suppliers of goods or services (including management) Japan should report such aid as tied. In addition, Japan's tied loan programme – Special Terms for Economic Partnership (STEP) – has grown in recent years. Although this programme is not used in LDCs, and therefore does not violate the 2001 recommendation, its use is not aligned with the Accra Agenda for Action's emphasis that signatories need to seek to untie "further".

### *Learning from special topics*

#### *Capacity development: from projects to systemic capacity development*

Capacity development is central to Japan's development co-operation philosophy. The *ODA Charter* explains that supporting partner countries' efforts to become self-reliant is the most important objective of Japanese development co-operation. The main way in which Japan seeks to support capacity development is through using Japanese experts, *i.e.* technical co-operation. In principle, Japanese experts are not deployed to "fill

a gap”. Instead they are expected to impart knowledge and good practice to support partner countries in enhancing their own capacity. However, in practice – like many other DAC members – Japan still has some way to go to address broader and systemic capacity-related challenges comprehensively. In some cases, Japan’s staff are more concerned with developing capacity to implement specific projects than with tackling organisational and systemic issues that can undermine or influence development more broadly. Japan should seek to improve the practical application of its capacity concept and close the gap between policy and practice. It should also seek to align its support with the capacity priorities identified by its partners, which may be different in fragile states and for non-governmental partners. Japan has nevertheless been an important supporter of capacity development in the crucial area of disaster risk reduction. Japan is encouraged to share lessons on these and its broader experiences in capacity development, as many other donors are also seeking to close the gap between policy and practice.

### *Environment and climate change: strong commitment and new initiatives*

The Government of Japan has identified global environmental issues as a top strategic priority. This is an area in which Japan has significant experience. Japan’s strong commitment to enhancing environmental co-operation is also anchored in its *ODA Charter*, which emphasises the importance of sustainable development and environmental conservation. Overall, Japan’s “aid in support of the environment” (*i.e.* not necessarily an environmental project but one in which environmental concerns are one of the objectives) increased by over 6% in 2008 from 2007, reaching about USD 4.2 billion. Japan’s spending within the environment sector itself was around one-tenth of this volume – at USD 452 million in 2008 – although it has also increased in recent years.

Mainstreaming environmental considerations into all of its work should be a priority for Japan since while its spending on environmental projects is limited, it is high in sectors with potentially major environmental impacts – notably large infrastructure projects. Japan has introduced an environmental screening process to help ensure that environmental issues are considered across all types of projects, but it is not always clear how identified opportunities and risks are followed up. Japan also uses partners’ own environmental impact assessments (EIAs). Elements of strategic environmental assessment (SEA) appear to be partially integrated, but Japan’s guidelines are not clear on how to support the application of these assessments at sector and national levels. The Committee was informed that JICA approved, in 2010, new guidelines on environmental and social considerations, which incorporate strategic environmental assessment.

Japan has significant high-level commitment for climate change. The new government has launched the Hatoyama Initiative, which builds on and supersedes the Cool Earth Partnership announced at the 2008 G8 Summit in Japan. Under this new initiative, Japan will provide USD 11 billion in public finance (of which USD 7.2 billion as ODA and USD 3.8 billion as Other Official Flows) and another USD 4 billion in private funds by 2012 to support developing countries’ efforts to address climate change problems. This financial commitment is very welcome, but caution is needed to ensure it is well co-ordinated with other climate finance mechanisms and that it is not met by counting funds already deployed under other commitments. Furthermore, to get the best value for money and to ensure Japanese and other environmental technology can be accessed through open bidding procedures, funds that are counted as ODA should not be tied.

## Recommendations

Japan has increased the effectiveness of its aid since the last peer review. In order to build on this progress, it should:

- Apply more systematically its successful approach to co-ordinating and aligning projects within partner-led programmes, i.e. situate more of its projects within partner programmes and consider using pooled funds where appropriate. It should also increase the proportion of aid which is provided on partners' national budgets and share indicative funding figures for future years.
- Apply JICA guidelines for implementing and assessing capacity development, ensuring that staff (i) take a holistic or system-wide approach in practice; (ii) work with other donors; and (iii) better focus on the capacity priorities and challenges identified by partner countries.
- Continue to make progress in untying aid and improving transparency by (i) reporting the tying status of all of ODA, including technical co-operation; and (ii) ensuring its procurement guidelines make clear whether primary contractors may act as agents only or also as managers or suppliers – in the latter case, such aid should be reported as tied.
- Ensure that its large-scale climate change initiatives are well co-ordinated with other international and partner country initiatives, and that ODA components are provided in line with the DAC Recommendation on Untying, in order to maximise the benefits of its environmental support.
- Take a more systematic approach to considering environmental issues in non-environmental expenditure through (i) consolidating screening process to ensure opportunities and challenges are identified and followed up; and (ii) greater use of SEAs in the formulation and assessment of development policies, plans and programmes.

## Japan and the good humanitarian donorship principles

### *Putting a comprehensive framework in place*

Japan endorsed the *Principles and Good Practices of Humanitarian Donorship (GHD)* in 2003 and in 2010 became a full member of the GHD group. Japan has not, however, developed a national GHD implementation plan. The broader legal and policy framework governing Japanese development co-operation lays the foundations for a principled and coherent policy for humanitarian action. However, Japan's policy approach differentiates between humanitarian action in the context of natural disasters and humanitarian action in the context of conflict or "complex emergencies". A policy statement on the objectives of humanitarian action in the latter context would complement the *Initiative for Disaster Reduction*. This would clarify the distinctive goals of humanitarian action – as opposed to peacebuilding assistance, which is linked to longer term development – and offset the risk of compromising the GHD principles of impartiality and independence. In recent years Japan's Self Defence Force has played a growing role in complex emergencies. This, and the increased emphasis on conflict and security issues in Japanese development co-operation policy, means that Japan needs to promote further dialogue among relevant humanitarian and defence actors. The Committee commended Japan for its participation in the International Network on Conflict and Fragility.

### *Becoming a reliable and flexible humanitarian donor*

Japan disbursed USD 228 million (net) as humanitarian aid in 2008. At 1.6%, the proportion of bilateral ODA allocated for humanitarian assistance was well below the DAC average of 7% for that year. Even when including an estimated USD 21 million in core contributions to multilateral humanitarian agencies, Japan ranked only 18th among DAC members in terms of overall volume of humanitarian aid that year. However, Japanese allocations for humanitarian action are subject to significant annual fluctuations because Japan responds to major crises using its supplementary budget. For example, it disbursed USD 657 million and USD 527 million in 2004 and 2005 largely in response to the Indian Ocean tsunami and the Kashmir earthquake. In addition, Japan's support to disaster risk reduction initiatives should be acknowledged. These were in the order of USD 479 million in 2008. This is an area in which Japan has valuable experience, particularly in Asia.

Japan's support to the multilateral humanitarian system prioritises appeals from the United Nations Consolidated Inter-Agency and International Committee of the Red Cross/Crescent. Japan provides the bulk of its humanitarian support to multilateral agencies as earmarked allocations. Japanese NGOs state that the timeliness of the government's response has improved since the introduction of the "Japan Platform", which co-ordinates public and private funding to 32 member NGOs. However, the volume of funding channelled in this way is still relatively small, at about USD 10 million per year and there does seem to be capacity to deploy greater funding through this mechanism. Multilateral agencies and NGOs receiving Japanese humanitarian funding find some of the procedures complex and time consuming, an issue which Japan should seek to address on the basis of good humanitarian donorship principles.

### **Recommendations**

In order to consolidate its approach to humanitarian assistance, Japan should:

- Ensure that its humanitarian assistance procedures are in line with the GHD principles.
- Produce a policy statement on the objectives of humanitarian action in conflict situations to complement the *Initiative for Disaster Reduction through ODA* and to clarify the distinctive goals of humanitarian action – as opposed to developmental peacebuilding assistance – in these difficult contexts.
- Further promote the dialogue among humanitarian and defence actors in order to uphold the impartiality of Japanese humanitarian action.



## SECRETARIAT REPORT

### Chapter 1

#### Strategic Orientations

##### **The foundations of Japan’s development co-operation and recent changes**

###### *Grounded in experience*

Japan has an impressive history as a leading international donor. The philosophy behind Japanese development co-operation is rooted in the country’s own history of rapid economic development after the Second World War. From the late 1940s Japan’s national policy focused on domestic economic growth and recovery and peaceful international engagement. Through this approach, later known as the “Yoshida Doctrine”, Japan transformed itself into a leading global economy in a single generation. It used international financial assistance to support this endeavour and Japanese development co-operation has been framed by this experience. Japan’s 1947 constitution, which states that “all peoples of the world have the right to live in peace, free from fear and want” also provides a strong basis for Japanese development co-operation (GoJ, 1947). In addition to its own development story, Japan’s experience of supporting successful economic development in some South East Asian countries has helped to inform its current approach.

These historical roots and development experiences are reflected in Japan’s current policies for international development co-operation. Its revised *Official Development Assistance Charter* (GoJ, 2003) explains that the “basic policies” of all Japan’s official development assistance (ODA) include supporting the “self-help efforts” of developing countries and the use of Japan’s experience and expertise. The “principles” of Japanese ODA implementation, according to the charter, include avoiding the use of ODA for military purposes and the importance of a market-orientated economy. Though Japan does not have an ODA specific law, it does have a legal framework, which gives the Ministry of Foreign Affairs (MoFA) a co-ordinating role for ODA. The ODA Charter, though not a legislative document, was approved at cabinet level and provides a good policy foundation for Japanese development co-operation.

###### *New directions*

Although there is stability in Japan’s philosophy and approach to development co-operation there have also been significant changes since the last DAC peer review (Annex A summarises progress against the 2003 recommendations). The Japanese development

co-operation system has started to change and continues to evolve. These changes have been driven by “*gaiatsu*” (external pressures), but more notably by “*naiatsu*” (internal pressures), many of which relate to the economic downturn which began in the 1990s (Lancaster, 2010). The revision of the 1992 ODA Charter, which took place just before the last peer review, helped to clarify policy priorities and paved the way for including a poverty dimension within the overall growth-orientated approach. This brings it more in line with the 2001 DAC guidelines on poverty reduction (OECD, 2001a), with promoting pro-poor growth (OECD, 2007a) and with the Millennium Development Goals (MDGs). An ODA reform plan was also implemented in order to streamline the overly complex system. When the Japan International Cooperation Agency (JICA) became an independent administrative agency in 2003 it introduced an organisational reform process and a number of changes to how aid is managed. In 2008 the “new JICA” was formed - a major organisational change, which in itself is an achievement (Chapter 4). JICA now not only manages most technical co-operation, but also most grants and loans, making it the biggest bilateral aid agency in the world. MoFA has also been restructured to support this change. In addition, since the last peer review, Japan has signed up to the Paris Declaration and Accra Agenda for Action, has increased its engagement with other donors and made some efforts to harmonise and align its aid with those of other donors and with partner country strategies. Such directions are also supported by the ODA Charter’s emphasis on collaborating with the international community and on self-help principles.

The volume of Japanese ODA, excluding debt relief, reached a peak in 2000. In 2001 Japan lost its prized position as the world’s largest donor (in nominal volume terms) and its aid volume continued to decline. However, in 2008 Japan increased its ODA envelope to USD 9.6 billion, making it the fifth biggest DAC donor that year (Chapter 3). Nevertheless, Japan’s ODA represented only 0.19% of its gross national income (GNI) in 2008, the lowest ratio of all DAC members and a position it shared with the USA. Japan is encouraged to make the 2008 increases the beginning of an upward trend that would help Japan to regain the ground lost over the previous decade.

This peer review was conducted soon after a new government won power in September 2009. This is the biggest shift in political leadership in Japan for 50 years and the new government was elected on a reform mandate. It intends to introduce a range of reforms and to reduce the power of the bureaucracy in favour of elected politicians and civil society. Thus further change is expected, both in terms of policy and budgeting, although the administration expects these changes will take the form of “evolutions” rather than “revolutions”. The new government has an opportunity to build on changes made over the previous 5-10 years in Japanese development co-operation. It has already indicated some new directions, including enhancing the role of Japanese non-governmental organisations (NGOs) and the private sector. Prime Minister Hatoyama’s speech to the UN General Assembly, just weeks after he took office in 2009, indicated a strong push to tackle climate change and a more multilateral approach in international engagement. In addition, the new government has indicated that it intends to honour existing official commitments. It has announced it will complete a “basic review” of ODA by mid-2010. However, it is also looking to make budget cuts and has established a committee to identify spending lines to be cut. Areas where cuts are planned include public communication, research and grants for hard infrastructure. It will be difficult to reconcile budget cuts with various spending commitments, including overall ODA pledges. In addition, given that the development co-operation system has been subject to

progressive cuts over an extended period, further cuts may undermine the ability of the system as a whole to function effectively.

## Japan’s vision and approach

### *A clear vision*

The overarching vision for Japan’s development co-operation is “To contribute to the peace and development of the international community, and thereby to help ensure Japan’s own security and prosperity” (GoJ, 2003). ODA is a fundamentally important component of Japan’s wider foreign policy, not least because of the country’s constitutional commitment to peaceful international engagement and its export-orientated economy. In short, Japan is explicit that development co-operation is in its own interests in the long term and this is well understood by all stakeholders.

Japan’s philosophy and priorities for its development co-operation are set out in its ODA Charter (GoJ, 2003) and its *Medium Term Policy on Official Development Assistance* (GoJ, 2005a) (Box 1). The 2005 Medium Term Policy makes specific reference to the Millennium Development Goals and to poverty reduction. These documents are complemented by short policy statements on a range of specific issues – such as achieving the MDGs, health, education, water and sanitation, environment and gender – and at country level by Country Assistance Programmes (CAPs) (Chapter 4).<sup>1</sup> In addition, the government sets priorities for each financial year, which are laid over the medium-term priorities. The 2009 priorities included support for the eradication of terrorism, and promoting an environment to facilitate Japanese companies’ activities in developing countries (Box 1) (GoJ, 2009). In 2008 they included improving agricultural productivity, and in 2007 they included democratisation and economic growth. So although the Charter and Medium Term Policy provide a stable framework, priorities can shift on an annual basis. The 2009 objective to assist Japanese companies does not seem well aligned with the central and long-term objectives of Japanese ODA; an aim to increase involvement of the Japanese private sector in achieving development objectives and to support partner countries’ private sectors to develop would fit better and encourage Japan to draw on its own experience of private sector development. In addition, it may be worth considering whether an annual change of priorities adds value to an otherwise clearly structured and consistent policy framework. The new JICA has also set out its own new vision: “inclusive and dynamic development”. This links to four corresponding missions: addressing the global agenda, reducing poverty through equitable growth, improving governance and achieving human security.

The new government has an option to renew the official policy framework for Japanese development co-operation, indeed, the Medium Term Policy is due to be updated. Since the current version does not make reference to the aid effectiveness agenda (Chapter 5) or policy coherence for development (Chapter 2) an update could fill these gaps. This would reflect Japan’s commitments under the Paris Declaration, Accra Agenda for Action and OECD Declaration on Policy Coherence for Development. This

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1. Japan has CAPs in 28 countries, though it is present in over 100. CAPs set out the overall direction and priority areas for Japanese development co-operation in a specific country. Japan also uses “Rolling Plans”, which are a list of ongoing and planned projects, for all its partner countries and are developed for all partner countries.

would complement the coverage of poverty reduction and pro-poor growth, which should also be an important feature of any policy updates.

### **Box 1. The policies and priorities of Japanese development co-operation**

#### **Basic policies (set out in the ODA Charter):**

1. Supporting the self-help efforts of developing countries
2. Human security
3. Ensuring fairness
4. Using Japan's experience and expertise
5. Partnerships and collaboration with the international community

#### **Priority issues (set out in the ODA Charter and developed further in the 2005 Medium Term Policy):**

1. Poverty reduction
2. Sustainable growth
3. Global issues
4. Peacebuilding

#### **Priority issues for the 2009 financial year:**

1. Supporting Asian countries in response to the financial crisis
2. Eradicating terrorism
3. Environmental issues, including climate change
4. Implementing the Tokyo International Conference on African Development (TICAD) commitments
5. Promoting an environment to facilitate Japanese companies' activities in developing countries
6. Promoting extensive participation by Japanese citizens in international co-operation

### ***A distinctively Japanese approach***

While Japanese ODA policies cover many of the same issues as other donors and reflect many key DAC guidelines and policy documents,<sup>2</sup> there are also specificities regarding *what* Japan wants to do and *how* it seeks to do it, with *whom* and *where*. In terms of what Japan wants to do and how it seeks to do it, the emphasis is on stimulating economic growth in order to reduce poverty. While its stated priorities do cover many of the human development issues highlighted by the MDGs, the core Japanese approach remains economic growth. The addition of the “human security” perspective (Box 2) has helped to promote a poverty dimension within this growth orientated outlook (Leheny & Warren, 2010). The reference to the Millennium Development Goals in Japan's Medium Term Policy may also have helped to integrate poverty reduction concepts. It is crucial that Japan ensures its stated intention - to ensure growth leads to poverty reduction - is followed through in practice, in terms of the types of initiatives it chooses to support and how it seeks to maximise positive impacts for the poor. In addition, Japan is increasingly prioritising “global issues” such as climate change and peace and security (GoJ, 2009). Partly because of its own vulnerabilities, Japan also pays attention to responding to, and reducing the risks from, natural disasters (Annex C). Japan also works on the basis of

2. For example, the DAC guidelines on poverty reduction (OECD, 2001a); on gender equality and women's empowerment (OECD, 1999); promoting pro-poor growth (OECD, 2007a); and capacity development (OECD, 2006c).

non-interference in partners' political affairs, except where military spending or proliferation issues are involved.

### **Box 2. Human security**

Japan defines human security as achieving freedom from fear and from want. The human security concept enables a focus on “removing the risks or threats to individuals’ ability to be free from fear and want, and to empower individuals and communities to safeguard those freedoms” (JICA, 2006a). It also resonates with the Japanese constitution’s commitment to the right of all people to live “free from fear and want” (GoJ, 1947).

The concept of human security has been promoted by Sadako Ogata, the President of JICA, who served on the UN’s Commission for Human Security during her tenure as UN High Commissioner for Refugees. It is also given high priority within MoFA. Japan has sought to promote the human security concept internationally as well as within its own development co-operation. The high priority given to human security in policy circles in Japan has helped to add a human or individual dimension to an aid programme that had previously emphasised the collective over the individual, economic development over poverty and the state over the community. In this way it has helped to give Japanese ODA policy a greater poverty orientation.

JICA is trying to add a human security dimension to all of its work, from the smallest to the grandest project. But moving from policy to practice can be particularly challenging for larger projects, such as major economic infrastructure. JICA has now introduced a requirement for project officers to consider human security aspects at the design stage. JICA has also identified seven general principles to guide implementation of the human security concept:

1. Reaching those in need through a human-centred approach
2. Empowering people as well as protecting them
3. Focusing on the most vulnerable people, whose survival, livelihood and dignity are at risk
4. Comprehensively addressing both “freedom from want” and “freedom from fear”
5. Responding to people’s needs by assessing and addressing threats through flexible and inter-sectoral approaches
6. Working with both governments and local communities to achieve sustainable development
7. Strengthening partnerships with various actors to have greater development impact

MoFA has established two funding channels specifically to support human security projects. The UN Trust Fund for Human Security (which has contributed USD 346.6 million since 1999) and Grant Aid for Grassroots Human Security Projects (budgeting just under USD 100 million in 2008). These are administered separately from the bulk of Japan’s development co-operation. For both, the emphasis is on multi-sectoral, community-based, and small-scale projects. The UN Trust Fund can be accessed by multiple agencies and Japan hopes it will encourage UN agencies to work together through making joint applications for joint projects.

Evident throughout Japanese policy documents and wider discussions is a concern to increase the quality of Japanese ODA. Japan allocates ODA through three main “schemes” or modalities – grants, technical co-operation and loans. It is seeking synergies between them (Chapter 4). Loans – which Japan sees as supportive of partner ownership and also finds easier to fund – are an important component, comprising just under half of total bilateral ODA. Japan mostly funds projects, varying from small technical co-operation projects to major loan projects. It uses technical co-operation to build partner countries’ capacity to support their own development efforts (Chapter 6). It also emphasises the importance of introducing Japanese technology and expertise, and the

value of economic infrastructure for economic growth. These pillars – building capacity to support self-help efforts, using Japanese technology and expertise and infrastructure for growth – are evident throughout the Japanese system and their roots can be traced back to Japan’s own development experience.

In terms of *who* it works with, to achieve development objectives, Japan has always strongly emphasised state-state relations, and builds strong relationships with partner governments, establishing a reputation for reliability, humility and non-interference in many contexts. Also of particular note is Japan’s experience with triangular co-operation – *i.e.* supporting South-South co-operation (Box 7, Chapter 5). Within its bilateral country programmes, only a small proportion of funding is channelled through NGOs or other partners (Chapter 3). However, the new government’s emphasis on the greater involvement of Japanese NGOs may change this. In addition, Japan has found that NGOs with sufficient experience and capacity can be more nimble and efficient partners during emergencies (Tanaka, 2010). Japan also has experience in involving its own private sector in development co-operation. Currently, Japan is making efforts to rekindle this type of partnership, for example through reviving the public-private co-operation for accelerated growth policy, initiating the Facility for African Investment (Box 3) and by expanding ODA task forces in partner countries to include Japanese companies (Chapter 4). Japan will need to avoid eroding the progress made in untying Japanese aid (Chapter 5). In both of the partner countries visited in the peer review (Bangladesh and Kenya, Annex D), partners mentioned the potential for Japan to increase its role in supporting development of the *local* private sector.

In terms of *where* Japan wishes to operate, Japan has traditionally prioritised Asia, and this is explicit in the ODA Charter. However, since the charter was written, Japan has committed to double its ODA to Africa and has increased its engagement in the continent (Box 3). Since ODA is considered an important foreign policy tool for Japan, it sees its presence in a large number of countries as important and does not intend to reduce the geographical spread of its ODA. However, Japan should ensure that when using ODA to build international friendships and alliances, it does not override its primary development objective. Japan’s attention to regional development is evident in both Asia and Africa. Examples include the Mekong-Japan Action Plan 63 and the One Stop Border Post project in East Africa.

Although Japanese development co-operation policies are decided in a top down manner there is increasing scope for field staff experience and partners’ views to play a role, especially in formulating CAPs – field offices now propose the CAP’s initial outline. In addition, Japan’s TICAD process (Box 3) has specifically sought to formulate a policy towards Africa informed by the views of African governments. Policy dialogue with NGOs within Japan has also increased recently. Two formal mechanisms for NGO engagement have been established: one to discuss policy and the other to discuss working together. While NGOs feel that so far this engagement has remained at the working rather than decision-making level, they are hopeful this will change with the new government’s emphasis on increasing NGO engagement both in ODA implementation and policy dialogue. As yet, there are no similar mechanisms to allow for the engagement of civil society organisations within partner countries.

### Box 3. TICAD

The first Tokyo International Conference on African Development (TICAD) took place in 1993. Similar meetings, which attract heads of state and senior ministers from all over Africa, take place every five years. The emphasis of TICAD is on Africa's ownership and Asian-African co-operation. TICAD IV was held in May 2008 in Yokohama, Japan, under the banner "Towards a Vibrant Africa" and focused on boosting economic growth, achieving the MDGs, consolidation of peace, good governance and addressing environmental and climate change issues. At TICAD IV Japan agreed to support a range of commitments including:

- Doubling ODA to Africa by 2012
- Supporting regional infrastructure development – including regional road networks and one-stop border posts
- Including food aid and doubling rice production in Africa
- Promoting trade and investment – aiming to double Japanese foreign direct investment (FDI) into Africa, establishing a USD 2.5 billion Facility for African Investment and dispatching joint public-private missions
- Focusing on education, health and water, especially by building infrastructure and training service providers.
- Funding the Hatoyama Initiative (previously known as the Cool Earth Partnership) with a share in the USD 11 billion for climate related support (including ODA and other official flows) to be spent globally over five years.

All of these commitments are included in the Yokohama Action Plan (GoJ 2008). In response to suggestions from African partners, Japan has also established a TICAD follow-up mechanism to monitor progress against commitments. Follow-up meetings take place annually in Africa.

### Mainstreaming cross-cutting issues

Japan's progress in mainstreaming cross-cutting issues has been mixed. Its progress and prioritisation of gender issues (Box 4) could provide lessons for how to make similar in-roads in other areas such as governance. Conducting a review of gender mainstreaming could help to identify such lessons and could consolidate the progress made on gender by identifying how good practice examples can be used to build a more systematic approach. Such a review should examine whether gender focal points (Box 4) have sufficient authority and support and how the challenge of mainstreaming gender into large economic infrastructure projects is being addressed, - for example by including gender related activities in all project budgets - since aid to this sector is under-represented in Japan's gender equality focused aid.<sup>3</sup> One obvious lesson from gender is the positive impact of having a written strategy endorsed at a high level. All Japanese project proposals go through a basic screening process for their gender and environment impacts. Environmental mainstreaming is discussed in Chapter 6.

3. In 2006/07 around 40% of Japan's ODA was for the economic infrastructure sector; less than 15% of Japan's gender equality focused aid was allocated in that sector, according to the gender equality marker which is based on Japan's own assessments.

#### **Box 4. Gender equality**

Japan has a legal and policy basis for promoting gender equality. In 1999 Japan enacted a *Basic Law for a Gender Equal Society*. This included a stipulation that Japan should use development co-operation to help promote gender equality and it encouraged high-level interest in gender equality and ODA from the Cabinet Ministry (Tanaka, 2010). In addition, the ODA Charter and Medium Term Policy both emphasise the importance of gender in Japanese development co-operation. With the publication of its Gender and Development Initiative (GAD) in 2005, Japan moved from a perspective of women’s issues, to one of promoting gender equality and participation of both women and men (MOFA 2005c). This reflects better the priorities of the DAC guidelines on gender equality (OECD, 1999a). GAD promotes gender mainstreaming across all Japanese ODA, but also emphasises specific initiatives to enable women’s participation in policy formulation and institutions and laws to ensure gender equality. Gender equality is also included in JICA’s medium-term goals. Japan has taken the following steps to help mainstream gender in its development co-operation:

- Introduced a gender screening process for all projects and produced Guidelines for Environmental and Social Considerations (including gender).
- Established gender focal points in all country offices and provided on-line training to staff. Some country teams have gone further than others in integrating gender and in seeking training and support.
- Introduced a requirement for all country offices to produce an annual gender action plan explaining how they will consider and integrate gender issues in the coming year.
- Enlisted support from outside advisors and established a committee for gender mainstreaming.
- Held regular director-level meetings on gender mainstreaming.
- Used lessons from past evaluations to produce a booklet of good practices.
- Started to promote gender-responsive evaluation, applying a gender lens to the DAC evaluation criteria.

MoFA identifies good governance as a mainstreaming issue and supporting good governance is one of JICA’s four main missions. Support to government institution-building is emphasised in both the ODA Charter and Medium Term Policy. Capacity development in key governance institutions is a central component of many Japanese country programmes (Chapter 6). Despite its strong presence in the capacity-building side of governance, Japan does not engage so consistently in upstream policy issues or in raising governance problems – such as corruption, legal or regulatory reform issues – with partner countries. This is based on a philosophy of non-interference with “political” matters. Yet, in countries where governance is especially poor a different approach is required to those where the government is a very willing and capable partner. Japan could build on its experience in supporting capacity development in governance by also making its voice heard when governance problems arise and by supporting good policy development. Where such efforts are linked to those sectors where it funds major projects, this would also help to reduce the risks to its financial investments.

Japan is increasing its involvement in fragile and conflict-affected states. In particular, it is boosting its engagement and funding in Afghanistan and Pakistan, reflecting its priority to support international efforts against terrorism through non-



military means.<sup>4</sup> In addition, peacebuilding is a stated priority for Japan (GoJ, 2003; GoJ, 2005a; MoFA, 2006a). Japan is also now involved in security sector reform in some countries. JICA has established a division working on peacebuilding within its Public Policy Department. In 2009 JICA also updated its thematic guidance on peacebuilding. It also has a *Handbook for Transition Assistance*, which emphasises the human security perspective and conflict sensitivity and a *Handbook on Practices for Peacebuilding needs and impact assessment*. All three guidance documents are relevant to many fragile situations (JICA, 2006b, JICA 2009c). However, since Japan does not have a strategy or policy framework guiding its engagement in fragile situations, it has not explicitly addressed the challenge of taking a whole-of-government approach in such contexts, or how to engage in highly fragile situations which are not in conflict or post conflict situations, but where governance is especially weak. Japan should also act on the lessons identified in MoFA's evaluation of peacebuilding efforts in Afghanistan. These included tackling important practical constraints, such as human resources and poor preparedness for insecurity, as well as the absence of an overall policy framework (MoFA, 2006b). The *DAC Principles for Good International Engagement in Fragile States and Situations* and other guidance could be useful as Japan continues to refine its approach in these contexts (OECD, 2001b; OECD, 2005a; OECD, 2007b; OECD, 2007c) Japan's humanitarian assistance is discussed in Annex C.

### Public support for development co-operation

Japan places a high priority on public support for ODA. Since 1977 it has commissioned annual surveys<sup>5</sup> on levels of public support. Overall, these surveys indicate a fall in the proportion of people supporting an increase in ODA during the 1990s – a period when Japan was the largest donor in terms of volume. Since 2004, public support for an increase in ODA has almost doubled – rising from an all time low of 18% in 2004 to over 30% in 2008 (Figure 1). Over the same period, the proportion supporting a reduction has decreased. This recent increase in public support could either reflect an acknowledgement amongst the public that Japan is no longer the biggest donor or efforts by the government to raise public awareness and support. An independent survey shows that the sectors with the greatest public support are poverty, health and food aid (APIC, 2009). Despite the recent increase in public support, building and sustaining it further should remain high priorities for Japan.

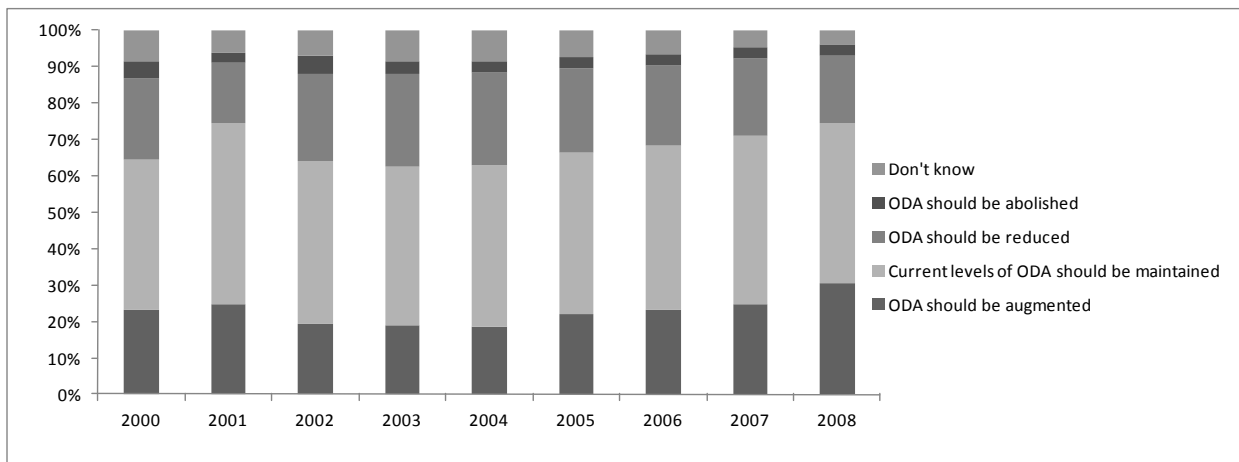
Japan does not have an overarching strategy for increasing public awareness and support, although JICA does have a communications strategy, and both JICA and MoFA are engaged in a number of public communication activities. For example, they have worked with NGOs to organise major public events, such as the annual *Global Festa JAPAN* in Tokyo, which in 2009 focused on environment and climate change and attracted 96 000 visitors. The *JICA Global Plaza* provides development education courses and interactive learning to school groups; it is also used as a meeting space. Annually the Plaza receives around 130,000 visitors. In addition, in partnership with NGOs, the government has produced teaching materials on international development issues. JICA

4 The new government announced in 2009 that it would not renew its support to military operations in Afghanistan, provided as fuel to NATO forces, but that it would instead increase its humanitarian and development spending there.

5 Gaiko ni kansuru yoron chōsa (annual public opinion survey on the Japanese foreign policy), Cabinet Office, Government of Japan, <http://www8.cao.go.jp/survey/index-gai.html>

also has 17 local branches across Japan in which it tries to promote awareness of development issues at the local level, including using returning Japan Overseas Co-operation Volunteers (JOCVs). However, the new government has recently announced that the communication and public relations budget for development co-operation will be cut significantly – directly affecting the JICA Global Plaza and branch offices. This could put at risk gains made in recent years, but also underlines the need for a clear strategy to make best use of limited resources.

**Figure 1. Public support for ODA, 2000-2007**



Source: *Gaiko ni kansuru yoron chōsa*, October 2009, Cabinet Office, Government of Japan

A comprehensive strategy, preferably a whole-of-government document, could help Japan build on the gains already made in awareness building. A whole-of-government approach has the advantage of involving other ministries, such as the Ministry of Education which could help to integrate development education into the curriculum. It should also be based on solid evidence – such as whom to target, the value of various methods and results to date. This would help to target awareness and communication efforts effectively. Crucially, any strategy should encourage a more proactive approach to engaging with all relevant stakeholders. The private sector and NGOs in Japan are, to some extent, already engaged, while the legislature and media tend to get engaged only following scandals and thus the government has tended to take a defensive approach. A more proactive approach – which engages parliamentarians on specific issues or regions and encourages involvement in policy and priority making rather than simply budget approval – would help build interest, support and, ultimately, allies. Greater involvement of development co-operation related committees, in both the upper and lower houses of the *Diet*, could shift parliamentarians' engagement from highly specific parliamentary questions to substantive debate and scrutiny. For example, seeking their active involvement in a consultation exercise on development policies and priorities, to inform the next *Medium Term Policy* or update to the *ODA Charter* could help to achieve this. Similarly, development co-operation is low on the radar of key media outlets, except when there are scandals to report. Proactively engaging with key players and creating allies may help to achieve a better balance in reporting. Many donors face similar challenges, so Japan may benefit from engaging more in forums like the Network of Development Communicators (DEVCOM), hosted by the OECD Development Centre.

### **Future considerations**

- Updating the ODA Charter, or Medium Term Policy, or revising the policy framework, would provide an opportunity to add specific reference to aid and development effectiveness and to policy coherence for development. The process could also be used to increase the substantive engagement of the Diet and other stakeholders.
- Japan should continue to improve its dialogue with NGOs at both working and high levels, in both headquarters and in the field and consider an increased role for and partnerships with partner country NGOs.
- By evaluating progress and identifying the factors which have facilitated gender mainstreaming Japan could consolidate progress and help integrate other cross-cutting or thematic issues such as state fragility and governance.
- Japan should examine how best to adapt how it works to suit situations of conflict and fragility and of poor governance, using its own experience and the body of lessons collected by the wider donor community. Written strategies on working in situations of fragility or of poor governance may also help support staff working in these contexts.
- Japan needs to write and adequately fund a strategy, preferably whole of government, on building public awareness and support. Such a strategy should encourage a more proactive approach to communication and engage all major stakeholders.



## Chapter 2

### Policy Coherence

#### The need to promote policy coherence *for development*

Promoting policy coherence for development (PCD) is a well-recognised challenge across OECD countries. OECD ministers adopted the *Declaration on Policy Coherence for Development* in 2008, thereby committing “to ensure that development concerns are taken into account across relevant policies *inter alia* through improved impact analyses and better policy co-ordination both at country level and within the OECD” (OECD, 2008b). This means that policies – both domestic and international – should be coherent and mutually supportive of developing countries’ development objectives, or at least not undermine them. This is policy coherence *for development*. To make progress towards policy coherence for development, three building blocks are needed (OECD, 2008c): (i) political commitment and policy statements that translate commitment into plans for action; (ii) policy co-ordination mechanisms that can resolve conflicts or inconsistencies between policies; (iii) systems for monitoring, analysing and reporting on development impacts to provide evidence for accountability and for evidence-based policy-making.

Japan has endorsed the OECD declaration and has made progress in improving the coherence and co-ordination of its development co-operation policies. Achieving coherence within development policies is an important step towards promoting PCD, especially as numerous ministries and agencies in Japan finance and implement aid-related activities. Nevertheless, as in all OECD countries, there is a wide range of activities beyond aid that have a bearing on development (*e.g.* agriculture, trade and investment, health, environment and migration) that demand comprehensive and coherent policies. This chapter highlights Japan’s efforts to date to improve the coherence of these non-aid policies with Japan’s development objectives and examines where further efforts are needed to improve policy coherence *for development* across all policy areas. Japan’s progress against the three building blocks is summarised in Table 1.

**Table 1. The building blocks of policy coherence for development in Japan**

Building block	Situation in 2003	Progress made by 2009
<b>Building Block A:</b> <i>Political commitment and policy statements</i>	Japan lacked an explicit statement on PCD covering the whole of government.	Japan still lacks an explicit policy statement on PCD. The 2003 ODA Charter and the 2005 Medium Term Policy provide the basis for promoting coherent ODA policy, but they are not specific to PCD ( <i>i.e.</i> they do not go beyond ODA).
<b>Building Block B:</b> <i>Policy co-ordination mechanisms</i>	Inter-ministerial co-ordination mechanisms were in place (the Council of Overseas Economic Co-operation-Related Ministers, chaired by the Chief Cabinet Secretary; ODA-related ministry and agency liaison councils at bureau-chief and division-chief level, and task teams) but promoting PCD was not an explicit objective.	The Cabinet-level Overseas Economic Co-operation Council, chaired by the Prime Minister, has replaced the Council of Overseas Economic Co-operation-Related Ministers. Other inter-ministerial co-ordination mechanisms remain in place, but promoting PCD is still not an explicit objective.
<b>Building Block C:</b> <i>Monitoring, analysis and reporting</i>	Japan had conducted little analytical work on the impacts of Japanese policies on developing countries. Reporting to parliament was done on the basis of MoFA's annual ODA reports, with no visible promotion of the PCD concept.	Government and public awareness of PCD is limited. Some efforts have been made in certain sectors, <i>e.g.</i> trade and investment, but there is still limited capacity to analyse PCD issues involving non-ODA policies ( <i>e.g.</i> agriculture, fisheries, migration, environment).

### Seeking political commitment

Political commitment and policy statements are two key elements of the first PCD building block. According to the DAC synthesis report, at the time of the previous peer review, Japan had made partial political commitment to PCD but lacked specific policy statements (OECD, 2008c).

Japan's ODA Charter, which sets out the main rationale and guidelines for Japanese aid, requires the government to co-ordinate ODA policies "with key Japanese policies to ensure policy coherence, taking into consideration implications for Japan's economy and society" and to "ensure that the government in its entirety implements ODA efficiently and effectively in a unified and coherent manner" (GoJ, 2003). Although there is no explicit reference made to policy coherence *for development*, the Charter does recognise the importance of coherent policies within the development policy area (*e.g.* trade and investment), building on Japan's experience in East Asia (Box 5).

However, neither the Charter nor the Medium Term Policy provide clear guidance on how to ensure that ODA and non-ODA policies (including those related to domestic policies and other official flows) both support partner countries' development goals. In order to achieve greater coherence, as agreed in the OECD declaration, Japan needs a broader framework for policy coherence that extends "beyond" the confines of development assistance. A clear policy, in the form of a political statement, would help Japan to translate its commitments into concrete policy measures and to position coherence at the centre of its whole-of-government approach to development.

## Policy co-ordination mechanisms

The second building block is a mechanism for co-ordination. Policy co-ordination appears to be a natural part of the Japanese government decision-making processes, which tends to involve making decisions through inter-ministerial co-ordination so that changes receive the consent of all relevant government bodies. MoFA is legally responsible for co-ordinating Japan's ODA-related policy and planning matters with other parts of the government in order to ensure inter-ministerial policy coherence. Put differently, other ministries and agencies should consult and co-ordinate with MoFA when planning and implementing their own ODA activities.

The last peer review noted that, Japan had had moderate success in putting policy co-ordination mechanisms in place (OECD, 2003a; OECD, 2008c). Since then, Japan has worked further to improve the coherence of its ODA policies through various mechanisms to co-ordinate inter-ministerial policy making:

- At the top level is the Overseas Economic Co-operation Council (OECC) – chaired by the Prime Minister and composed of the Chief Cabinet Secretary and the three ministers in charge of economic co-operation (MoFA, MoF and the Ministry of Economy, Trade and Industry – METI). OECC was established in 2006 to strengthen policy co-ordination and the strategic aspects of Japan's overseas economic co-operation, i.e. ODA, other official flows and private finance. In addition to the permanent members of OECC, the chair may request the attendance of other relevant ministers, heads of implementing agencies and experts. Since its establishment, OECC met 23 times under the previous administration and once under the new Hatoyama government, in December 2009. Subjects linked to policy coherence have been discussed on several occasions (e.g. linking trade and development to promote exports from least developed countries (LDCs), and public-private partnerships to promote private investment for development). But it is not clear whether there was a strong push for policy coherence for development.
- The OECC is supported by the inter-ministerial liaison bodies which meet regularly at bureau-chief and division-chief level. For example, the ODA-related Ministry and Agency Liaison Council is composed of the bureau chiefs (director generals) from each of the 13 ministries and agencies involved, to differing degrees, in development co-operation. The Bureau-Chief Council is in turn supported by a working-level liaison council made up of the division chiefs from each ministry and agency, and by a set of additional task teams focusing on three key areas of development co-operation: financial assistance (including grant aid and loans), technical co-operation, and evaluation. The International Co-operation Bureau within MoFA functions as the secretariat for the inter-ministerial ODA liaison council. These mechanisms have helped MoFA to fulfil its responsibility as the central aid co-ordination ministry and for enabling different branches of the government – all with different institutional interests – to exchange information, share common policies and goals, and maintain policy integrity as they implement specific ODA policy measures. In addition, personnel exchanges and secondments across different ministries and agencies are actively pursued, and allow for good working practices and informal communication channels.
- At field level, country-based ODA task forces – consisting of the embassy staff in charge of economic co-operation, JICA field offices and other Japanese government organs (e.g. the Japan External Trade Organisation) – work together to ensure policies are executed coherently. Task forces are also responsible for facilitating donor co-

ordination and consulting with other stakeholders, such as NGOs and business. Since the introduction of this system in 2003, MoFA has set up ODA task forces in 79 countries (Chapter 4). ODA task forces in-country and in Tokyo work together to coordinate ODA policies in the field and to develop whole-of-government Country Assistance Programmes (CAPs). However, their scope has not included promoting coherence for development, or making policies more coherent with development objectives.

- Despite these strong co-ordination mechanisms for coherent ODA policy, they still fall short of promoting coherence for development. Japan needs not only to address the coherence of aid-related activities but also the coherence of other policies with development objectives, so that all policies pull together to achieve development. There still appears to be a weak understanding of the difference between these two coherence agendas in Japan and in field offices. This highlights the need for an explicit political statement to provide an overall policy framework for raising government and public awareness of and reinforcing Japan's commitment to the issue at the highest level. This is critical, since other than MoFA's, the voice for development interests is weak within the Japanese government. For example, the Ministry of Agriculture, Forestry and Fisheries (MAFF) has traditionally maintained that ODA should not negatively affect Japan's agriculture and is not obliged to consider whether its policies affect Japan's development objectives. Japan's agriculture sector remains relatively protected from foreign competition and its overall level of domestic producer support is well above the OECD average (OECD, 2009k). Japan's free-trade agreements with several developing countries, as well as its Generalised System of Preference scheme, exclude agricultural products and certain industrial goods that are considered highly sensitive by the Japanese government, such as leather products and footwear (WTO, 2009a). Japan also applies some import prohibitions and quantitative import restrictions, e.g. on some fish (WTO, 2009a). Furthermore, MoFA is only consulted on domestic or other policies when there is a direct bearing on ODA/foreign policy (thus, on an issue-by-issue basis). Therefore, coherence is not systematically addressed in other inter-ministerial co-ordination arrangements for policies that may affect the development prospects of developing countries. In the area of trade and investment, however, there does appear to be some evidence of coherence in practice (Box 5).

#### **Box 5. Policy coherence for development in practice: trade and investment**

Based on its own experience, Japan strongly believes that aid alone is not enough for developing countries to achieve sustainable economic growth. In particular, Japan places high priority on supporting trade promotion and investment. This belief is reflected in its ODA Charter, which refers to the systematic linkage of ODA to trade and investment to ensure that they are "carried out in close co-ordination, so that they have the overall effect of promoting growth in developing countries" (GoJ, 2003).



**Policy coherence for development in practice: trade and investment** (Continued)

Three factors have contributed to progress on trade PCD: (i) strong political support at the prime ministerial level for open trade; (ii) good inter-ministerial working practices; and (iii) Japan's long-standing experience in promoting trade development in Asia. The existence of inter-ministerial policy co-ordination arrangements have helped to mainstream the development dimension of trade into Japan's overall assistance strategy and programming both at headquarters and in the field. In particular, close collaboration between MoFA and METI under the strategic guidance of the Prime Minister's Overseas Economic Co-operation Council (OECC) has enabled the government to forge more coherent development policies on trade with the LDCs. METI's involvement has helped strengthen the links between ODA and the private sector for investment and trade. A task force on private sector development has been established in JICA to consolidate knowledge and experience in the area, taking into account the crucial role played by the private sector in trade and investment.

Japan's activities under the Development Initiative for Trade (DIT), launched in 2005, have had some positive impacts. Under DIT, Japan has adopted a range of activities relating to the trade development needs of partner countries. Japan provides technical and financial assistance for each of the three stages involved: production (supply-side support); selling (distribution of export support) and buying (market access support). Japan has taken a whole-of-government approach to promoting trade and investment in partner countries, mobilising embassies, overseas offices of aid implementing agencies and other public entities to work in partnership with recipient governments to identify projects to be implemented under DIT. As part of the DIT strategy, Japan committed to providing USD 10 billion in bilateral aid for trade between 2006 and 2008, and a further USD 12 billion between 2009 and 2011 to help partner countries build their capacity to expand trade.

Partnerships between private companies and ODA are encouraged through the "Public-Private Partnership for Accelerated Growth" policy measure. For example, between August and September 2008 Japan sent three joint missions consisting of government and business representatives to 12 African countries to promote trade and investment and improve the continent's investment climate. Moreover, to foster Japanese private business operations in Africa, the Japan Bank for International Co-operation (JBIC) established the Facility for African Investment (FAI) in 2009 to make equity investments and guarantees for private Japanese bank loans, and provide local currency financing to projects in African countries. The Yokohama Action Plan adopted at TICAD-IV in 2008 (Box 3) also aimed to increase the global competitiveness of African countries by accelerating assistance through DIT and doubling Japanese private investment in Africa by 2012.

In April 2007 Japan extended the coverage of the preferential treatment (i.e. duty-free and quota-free (DFQF) market access) for almost all products (approximately 98% defined at the tariff line level) originating from the 49 LDCs in accordance with the decision adopted in the Hong Kong WTO Ministerial Declaration (WTO, 2009b). According to the government, imports from LDCs increased by 5.4% in 2007 and by a further 30.9% in 2008 compared to 2006. However, Japan should do more to strengthen the development dimension of its agricultural trade policy; its Generalised System of Preference (GSP) scheme still excludes many agricultural products and some industrial goods exported by developing countries (WTO, 2009a). Indeed, a recent study found that given the relative concentration of both OECD country tariff peaks and LDC exports, excluding as few as three percent of tariff lines from DTFQ would reduce the benefits significantly (Bouët et al., 2010).

Japan has also helped to enhance PCD across the OECD in the area of investment; Japan was the key architect of the OECD Initiative on Investment for Development launched in 2003. It also co-chaired, with Chile, the OECD Task Force responsible for developing the Policy Framework for Investment (PFI), a reference for donors assisting developing countries in improving the investment climate (OECD, 2006a). In 2007/08, Japan was closely involved in the OECD Investment Policy Review of Vietnam by introducing and applying the PFI in the country. It also actively supported the DAC's policy guidance for donors on using ODA to help developing countries mobilise private investment for development (OECD, 2006b).

With regard to monitoring, there are no guidelines for ministries and agencies to monitor and assess the development implications of their respective policies. No single ministry or unit within a ministry has overarching responsibility for implementing and monitoring coherence across the whole Japanese government system. The organisational reform of the MoFA International Co-operation Bureau in July 2009 established the ODA Evaluation and Public Relations Division and the Development Assistance Policy Planning Division with the aim of enhancing the Ministry's capacity in policy planning and co-ordination of Japan's ODA (GoJ, 2009). While this is a welcoming development, it is unclear how MoFA intends to strengthen its analytical capacity in policy coherence *for development* without a mandate to monitor non-aid policies – including domestic ones – of other ministries. This mandate needs to be given to a body with sufficient incentives and political clout to resolve policy differences and interests. One option may be to enhance the mandate of OECC to include oversight responsibility for coherence for development. The Council already has some responsibility to look at non-aid financial flows, including private capital used for development, this provide a very good basis. OECC could usefully drive the process towards greater coherence from the highest level of the government. Any cases of policy incoherence could then be resolved through the existing inter-ministerial co-ordination arrangements.

Finally, on transparency and reporting, the government has increasingly made efforts to raise awareness and promote better public understanding of ODA-related issues using various media such as the Internet, email newsletters and annual ODA reports. These include efforts to ensure coherent ODA policies, though not coherence beyond ODA. MoFA's regular dialogue with NGOs should also provide an opportunity to discuss policy coherence issues in general. Despite these efforts, the level of awareness or understanding of the coherence concept among the public, including parliamentarians and ministry officials, is limited. This may explain the lack of demand for wider public debate on monitoring and reporting of policy coherence *for development* in Japan. Japanese NGOs could – as an important external constituency for development – play a more significant role in monitoring coherence for development.

### **Future considerations**

- Japan should ground its international commitment to policy coherence for development in a policy statement, on how it will seek to ensure that all relevant policies, including domestic ones, support development objectives. With such a statement in place, Japan could use its existing inter-ministerial co-ordination mechanisms to implement and monitor it.
- Japan should assign the arbitration role to ensure policy coherence for development to a body with sufficient incentives and political clout to resolve policy conflict and interests.
- Japan should strengthen the capacity within the government for monitoring, analysing and reporting coherence issues and make more use of independent analytical capacity (research institutes, universities) for exploring the development impact of Japanese policies. In addition, it could make better use of the expertise of its field-based ODA task forces for this purpose, and learn from and share lessons with other donors facing similar challenges.
- Japan should raise awareness of policy coherence for development and improve the understanding of the concept amongst government ministries and agencies as well as the wider public.

## Chapter 3

### Aid Volume, Channels and Allocations

#### Overall official development assistance

##### *The start of an upward trend?*

Following an extended period of decline, in 2008 Japan increased its net ODA volume by 10.7% in real terms over 2007 levels.<sup>6</sup> At USD 9.6 billion, Japan's ODA was the fifth largest of DAC donors that year. ODA also increased from 0.17% of Japanese gross national income (GNI) in 2007 to 0.19% in 2008, but preliminary figures indicate it fell back to 0.18% in 2009 or to USD 9.5 billion (OECD 2010d). This is well below the DAC average of 0.31% and a long way from the 0.7% target.<sup>7</sup> Further, on the basis of preliminary 2009 data, Japan was USD 3.6 billion short of its Gleneagles commitment, *i.e.* to raise ODA by a total of USD 10 billion between 2005 and 2009 (OECD, 2009d). Over the last decade Japan has fallen from providing nearly 20% of all DAC aid (peaking in 1999/2000) to providing only 7.7% (2007/08; OECD, 2009d). In contrast, between 2007 and 2008 foreign direct investment flowing from Japan to developing countries rose by 42.5% to reach USD 25.7 billion.

##### *Securing increases despite budget cuts*

The continued stagnation of the Japanese economy, with rising fiscal deficits and debt, has made it difficult to secure a sustainable increases in the ODA budget, particularly in the “general account” (*i.e.* for grant aid, technical co-operation and contributions to multilateral institutions). In fact, since a decision by the cabinet in 2006 on fiscal reform, the ODA budget in the general account has been cut by between 2 to 4% annually. Overall, this ODA budget has shrunk in nominal terms by 42.5% from its 1997 peak, and a further cut is anticipated over the next fiscal year (Figure 2). In order to meet international commitments<sup>8</sup> while respecting the 2006 reform decisions, MoFA uses its

6. The 2007 constant figures are used for changes in ODA volume over time.

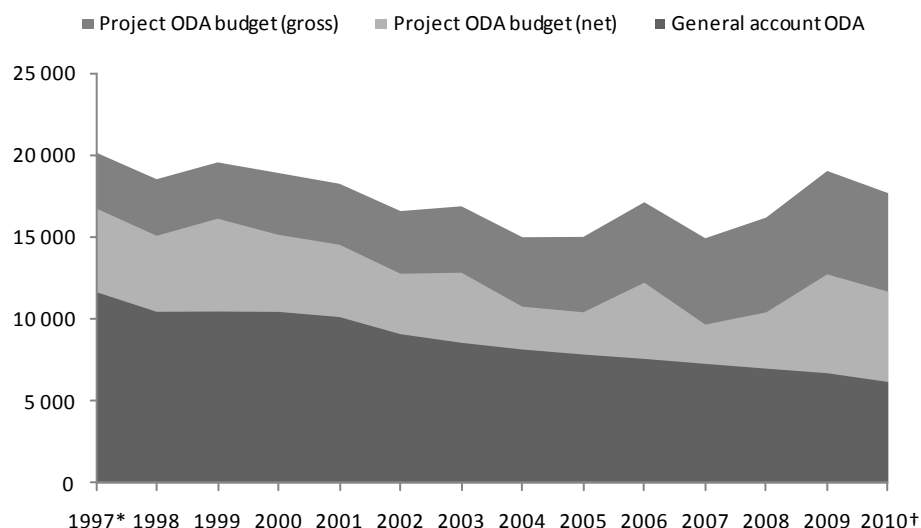
7. In 2002, at the United Nation's Monterrey Conference on Financing for Development, Japan committed to make concrete efforts towards the target of 0.7% ODA/GNI ratio, though without a set timeline for achieving it.

8. Japan announced a series of new commitments in 2009: USD 200 million to support the reconstruction of the Palestinian economy; up to USD 20 billion to support Asian countries respond to the financial crisis; USD 1 billion over five years to help Asian countries enhance food productivity; up to USD 1 billion over two years to support Pakistan; JPY 50 billion (approximately USD 485 million) over three years to support Pacific island countries; USD 12 billion in aid for trade over three years; USD 3 billion in aid to agriculture sector over three years; up to USD 5 billion over five years to support Afghanistan;

supplementary budget (earmarked contributions for specific projects or multilateral funds) to deliver short-term increases, including for fiscal year (FY) 2008 (JPY 77 billion or USD 744 million) and FY2009 (JPY 106.8 billion or USD 1.04 billion).<sup>9</sup> As a result, despite a 4% cut in the general account, the supplementary budget, on top of other off-budget sources, was large enough to increase the gross operational (project ODA) budget by 5.8% in FY2008 (to JPY 1.59 trillion or USD 15.3 billion) and by another 14.1% in FY2009 (to JPY 1.81 trillion or USD 17.6 billion).

On 25 December 2009, the government announced its FY2010 budget, in which the ODA budget will suffer a further cut of 7.9%, twice the size of previous cuts and amounting to JPY 618.7 billion (approximately USD 6 billion). However, with the supplementary budget, plus increases in yen loan projects and contributions to multilateral organisations, the overall project ODA budget is expected to increase by 2% in gross terms.

**Figure 2. Project and general account ODA budget, 1997-2010**  
(JPY100 million, current, fiscal years)



*Note:* Budgets are presented in nominal figures compiled in a given fiscal year; \* FY2007 excludes supplementary budget as no separation was between ODA and non-ODA supplementary budget prior to FY2008; † Supplementary budget for FY2010 is not yet determined.

*Source:* MoFA (<http://www.MoFA.go.jp/MoFAj/gaiko/oda/shiryo/yosan.html>)

Although it has enabled Japan to secure overall increases, the use of supplementary budgets is an *ad hoc* and short-term approach, causes volatility and unpredictability over future aid flows and makes planning difficult. The approach also does not appear to be a sustainable strategy for coping with budget reductions. In addition, tools which earmark funds for specific issues, such as the Hatoyama Initiative and in some cases the supplementary budget, can encourage the re-packaging or double counting of existing

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more than JPY 500 billion (approximately USD 4.9 billion) over three years to support the Mekong region as a whole.

9. An exchange rate of USD 1 = JPY 117.8 has been used for 2007, USD 1 = JPY 103.5 for 2008, and USD 1 = JPY 103 for 2009. The Japanese fiscal year runs from April to March.

projects and programmes to allow them to contribute to future spending targets. Japan should instead aim to increase its overall ODA based on a clear and strategic forward spending plan. Within this context, Japan should also consider setting an intermediate target (and a timeline for achieving it) that is on a par with its previous peak ODA level of the 1990s, in order to make progress towards internationally agreed targets, including the UN 0.7% ODA/GNI target. To achieve these targets and secure the necessary financing, strong political leadership from the highest level, backed by public support, is needed.

## Allocations

### *Geographical breakdown*

Over the last five years Japan has provided bilateral ODA to more than 140 countries in each year, indeed, in 2007-08 it supported 146 countries. Japan does not intend to reduce the number of countries it supports. Table 2 shows the top recipients of Japan's three ODA schemes. Although officially Japan does not specify priority countries, the bulk of its bilateral ODA went to a select group of Asian countries (Table B.4, Annex B). In particular, China, India and Indonesia have together received on average 20.9% of Japan's total net bilateral aid over the last 10 years. Other Asian countries, such as Bangladesh, Sri Lanka, Philippines and Viet Nam, also consistently appear on the top 10 recipients list. Japan has also increased its support to Afghanistan to respond to the country's reconstruction needs, making it the largest recipient of Japanese grants and the fifth largest in the overall allocation in 2008 (Table 2). Overall, about 45% of Japan's total bilateral aid goes to the top 10 recipient countries, and 60% goes to the top 20. A recent DAC (2009a) study also showed that Japan's aid portfolio had a relatively high share of significant and/or important recipient countries (72%, compared to the DAC average of 58%). This indicates that, despite the spread, there is also some concentration and that Japan is often an important donor for its partners (OECD, 2009a). Japan disburses aid in all regions, with the largest shares going to Asia (58%), the Middle East (16%) and Africa (15%) in 2008 (Table B.3, Annex B).

**Table 2. Top 10 recipients of net ODA by scheme, 2008 (disbursement basis, excluding debt relief)**

Grant aid	Technical co-operation	Yen loan	Net ODA
1. Afghanistan	1. China	1. India	1. Viet Nam
2. Sudan	2. Viet Nam	2. Viet Nam	2. India
3. Cambodia	3. Indonesia	3. Turkey	3. Turkey
4. Sri Lanka	4. Philippines	4. Malaysia	4. China
5. Congo, D.R.	5. Thailand	5. Morocco	5. Afghanistan
6. Tanzania	6. Cambodia	6. Brazil	6. Malaysia
7. Kenya	7. Afghanistan	7. Armenia	7. Cambodia
8. Uganda	8. Lao PDR	8. Tunisia	8. Sudan
9. Mongolia	9. Bangladesh	9. Kazakhstan	9. Morocco
10. Indonesia	10. Tanzania	10. Uzbekistan	10. Sri Lanka

*Notes:* South Korea and Romania were included in the original MoFA table but are not included here as they are not ODA recipient countries.

*Source:* Adapted from Chart III-15.2 in MoFA (2010: p.142).

Traditionally, Japan has focused its aid in Asia, particularly East Asia. However, Japan has made a series of commitments to increase the share and volume of its aid to

Africa in recent years (Chapter 1). Japan’s gross aid to Africa has actually decreased since 2005. (Table B.3, Annex B). However, Japan’s net aid to Sub-Saharan Africa increased by 9% between 2005 and 2008, with a peak reached in 2006 (Table 29, OECD, 2009d). Over a longer period, the shift is clearer: in 1997-1998, Japan allocated, on average, just 10.2% of its gross bilateral ODA to Sub-Saharan Africa compared to 14.3% in 2007-08 (Table 27, OECD, 2009d).

**Table 3. The status of Japan’s ODA volume commitments to Africa**

<b>Pledge</b>	<b>Status</b>
<p><b>TICAD III, September 2003</b></p> <p>Over the next five years (2004-2008) Japan aims to extend grant aid assistance to Africa totalling <b>USD 1 billion</b> for areas such as health and medical care.</p>	<p><b>FULFILLED</b></p> <p>Over 2004-2008 Japan provided USD 1.77 billion in grants to the social and infrastructure and services sector in Africa (constant 2007 USD)</p>
<p><b>Asia-Africa Summit, April 2005</b></p> <p>In the three years to come (2005-2007) Japan will <b>double its ODA</b> to Africa, with grant aid continuing as its central feature (USD 1.68 billion by 2007).</p>	<p><b>FULFILLED</b></p> <p>In 2007 Japan disbursed USD 1.77 billion net to Africa. However, in 2008 this figure dropped to USD 1.39 billion (constant 2007 USD).</p>
<p><b>TICAD IV, May 2008</b></p> <p>Japan will <b>double its total net ODA (excluding debt relief but including contributions to the African Development Bank)</b> to Africa from USD 0.9 billion (2003-2007 baseline) to USD 1.8 billion <b>by 2012</b>, through:</p> <ul style="list-style-type: none"> <li>• <b>Doubling of grant aid and technical co-operation</b> to Africa from USD 0.7 billion (2003-2007 baseline) to USD 1.4 billion by 2012.</li> <li>• Extending up to <b>USD 4 billion in ODA loans</b> to Africa by 2012, so that the net disbursement will be more than doubled (<i>i.e.</i> from USD 80 million to USD 160 million in net disbursement).</li> </ul>	<p><b>ON TRACK</b></p> <p>In 2008, Japan disbursed USD 1.75 billion net, excluding debt relief, to Africa, of which USD 1.2 billion was given in grants (current USD). Nearly USD 600 million (gross) in ODA loans was also provided to Africa. Japan was, therefore, already close to achieving its 2012 commitment in the year that the commitment was made.</p>

As Table 3 illustrates, Japan’s earlier commitments to Africa have already been met. However, the commitment to double ODA to Africa by 2007 was met, in large part, by exceptional levels of debt relief. It should also be noted that Japan made a second “doubling” commitment in 2008 and it is positive that this second target excludes debt relief. However, setting a target to reach USD 1.8 billion by 2012 was not as ambitious as it sounds, given that Japan already disbursed USD 1.75 billion in net ODA (excluding debt relief but including contributions to the African Development Bank) to Africa in 2008. Japan describes this as a “doubling” as the baseline it uses is 2003-2007 average disbursements, when ODA to Africa, excluding debt relief, was significantly lower than it was in the year this commitment was made. Japan is encouraged to continue to scale up its support to Africa, while also retaining its strong and highly appreciated presence in Asia. It will therefore need to increase its overall ODA envelope, also enabling progress towards the Gleneagles commitment to increase ODA by USD10 billion, albeit later than originally planned.

## *Sector breakdown*

While Japan works in a wide range of sectors, the mainstay of Japanese ODA remains hard infrastructure assistance, funded predominantly by loans (Annex B, Table B.5). In 2008, Japan allocated 32% of its total sector allocable ODA to economic infrastructure and services (USD 4.4 billion), with transport and energy together accounting for approximately 93% of the sector total. This proportion is more than double the DAC average of 15% but has decreased over time, since economic infrastructure accounted for more than 40% of Japanese bilateral aid 20 years ago (OECD, 2009d). The share of bilateral ODA supporting social infrastructure and services was 22% in 2008 (USD 3.1 billion). This is roughly half the DAC average of 41%. Given Japan's long involvement in economic infrastructure, these departures from the DAC average are not surprising and Japan's continued involvement in economic infrastructure, alongside its increasing support to social sectors, is appreciated by partner countries and the larger development community. Although Japan is trying to increase its focus at the country level by identifying fewer priority sectors, so far this is neither visible in Japan's country programmes nor in total sector allocations. Japan identifies "peacebuilding" as a thematic priority in its ODA Charter and Medium Term Policy (Chapter 1). However, Japan's gross bilateral disbursements to peace, conflict and security remain low (less than 1-2%) and were static between 1997 and 2008 as much of its cross-cutting "peacebuilding" effort is in areas such as education. Similarly, Japan's humanitarian assistance also accounts for a very small proportion (1-2%) of its total ODA (Annex C). Recent commitments to Afghanistan and Pakistan may change this.

## **Channels**

### *Bilateral aid*

In 2008 Japan disbursed 84% of its gross ODA through bilateral channels. The preference for a bilateral approach relates to concerns about the visibility of Japanese aid and its importance for political leverage and as a foreign policy instrument (Kawai and Takagi, 2004). Japan's bilateral ODA is composed of three main channels or "schemes":

- **Technical co-operation:** in 2008, 13% of Japan's gross bilateral ODA was provided as technical co-operation (Table B.2, Annex B), which includes dispatching experts and volunteers (JOCVs), receiving trainees, providing equipment, and conducting project formulation or development studies (Table 4).
- **Grants:** Japan disbursed 40% of its gross bilateral ODA as grants in 2008. Within the grant aid scheme, there are 15 separate categories each linked to a particular theme or a purpose.<sup>10</sup> The important distinction is between project and non-project grant aid. The latter is a form of commodity aid designed to fund necessary imports to meet the national development strategies of developing countries faced with acute balance of payments difficulties. In 2008, the volume of ODA grants increased by 15.2% from 2007, largely helped by a 28% increase in debt relief (Table B.2, Annex B).

10. These include grant aid for general projects, non-projects (including sector programme grants), fisheries, cultural co-operation, grassroots human security projects, Japanese NGO projects, human resource development scholarship (JDS), community empowerment, poverty reduction strategies, disaster prevention and reconstruction, environment and climate change, emergency projects, food aid, the project for underprivileged farmers, and co-operation on counter-terrorism and security enhancement.

- Loans:** Japan gave 47% of its gross bilateral ODA as loans (including debt rescheduling) in 2008. It has the highest loan share in total ODA of all DAC members. In 2007/08, the average proportion of loans in total bilateral ODA (commitments) was around 49% (OECD, 2009d). The amount of Japanese ODA lending increased by 8.3% in 2008 but the rising levels of repayments from developing countries muted the impact of this growth in net ODA (Japan received nearly USD 7 billion in repayments, compared to giving USD 6.2 billion in new loans) (Table B.2, Annex B). An average Japanese ODA loan in 2008 had a grant element of 74.1%, which is above the DAC average of 67.1% (OECD, 2009d). However, because loans were a major feature of Japan's ODA in 2008, that year it did not meet one of the two criteria set out in the DAC Recommendation on the Terms and Conditions of Aid (OECD 1978). The Recommendation states that each member's ODA should have an overall grant element of 86% or higher. For the first time in some years Japan dipped below this level, with 85.1% in 2008. It did, however, meet the part of the recommendation which refers specifically to least developed countries (LDCs) – for which the grant element should be at least 90% for the LDC group each year, or 86% for each individual LDC over three years.

**Table 4. Technical assistance by JICA, 2007 and 2008, USD million**

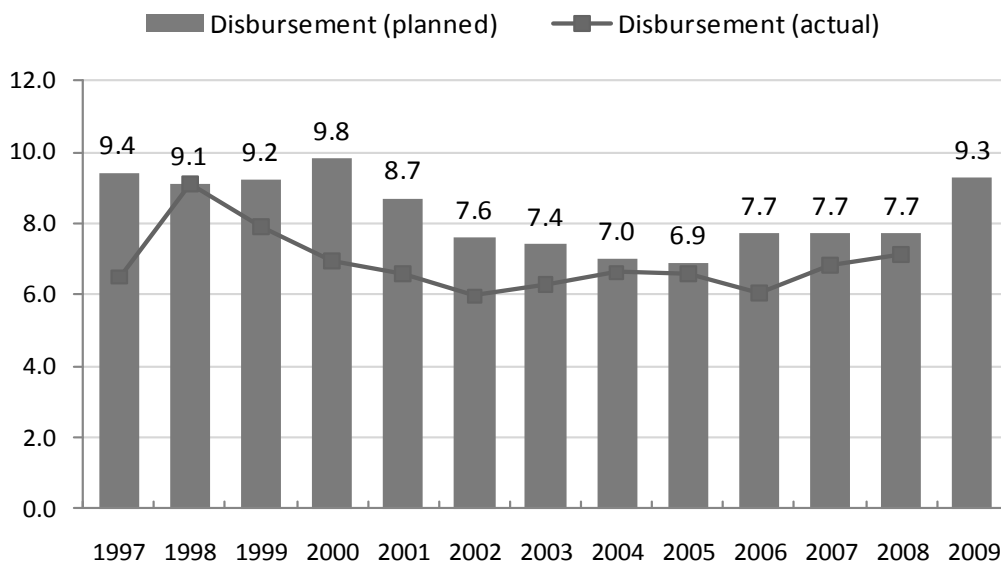
	2007		2008	
Acceptance of trainees	162.9	13%	228.9	16%
Dispatching experts	171.5	14%	189.4	13%
Study missions	195.2	16%	193.2	13%
JOCVs	134.9	11%	153.6	11%
Other volunteers	41.6	3%	42.5	3%
Provision of equipment	35.7	3%	42.5	3%
Others	499.2	40%	608.7	42%
JICA total	1 241.1	100%	1 458.9	100%

Source: JICA (2009a), *JICA Annual Report 2009*, JICA, Tokyo.

The heavy use of loans reflects Japan's emphasis on self-help and self-reliance (Chapter 1). Japan believes that the requirement to repay encourages recipients to be fiscally more responsible and to allocate scarce resources more efficiently. As their economies expand, fiscal revenues will allow recipient countries to repay the loans. In addition, the use of off-budget resources (funds borrowed from financial markets) to finance loans, has allowed a rapid expansion of the overall ODA budget without resorting to a correspondingly large general account allocation. Nevertheless, the number of new ODA loan projects has not grown significantly in recent years (Figure 3). This is partly because Japan has become increasingly conscious of debt sustainability when deciding new loans.<sup>11</sup> In 2008, Japan disbursed more grants, including technical co-operation (USD 7.76 billion; up 30% from 2007), than loans (USD 6.93 billion) in gross terms. This trend is linked to Japan's increasing focus on Sub-Saharan Africa.

11. In 2002, the Japanese government decided to abolish the practice of providing matching grants in exchange for debt repayments (i.e. grant aid for debt relief). Instead, from FY2003 it has written off all outstanding debts agreed under the international framework for heavily indebted poor countries (HIPC).



**Figure 3. Yen loan disbursement, 1997-2009 (USD billion)**

Source: International Bureau, Ministry of Finance

### ***Support to and through NGOs***

The DAC records two types of NGO support: (i) ODA *to* NGOs, which includes core support (contributions used to fund NGO projects); and (ii) ODA channelled *through* NGOs (donor-initiated projects implemented by NGOs). Only 3% of Japan's total net ODA disbursed in 2008 was allocated to or channelled through NGOs, compared to the average DAC share of 7% (Table B.1, Annex B). Most of the difference is due to the fact that Japan does not make widespread use of NGOs as implementing partners, *i.e.* its support *through* NGOs is limited. Where it provides support *to* NGOs, it is mainly to fund NGOs' individual projects, rather than their core budgets. Yet core funding can help NGOs build their own capacity. In 2006, MoFA announced a five-year plan called the "Vision for NGO Capacity Building and Collaboration" to promote and strengthen its strategic partnerships with Japanese NGOs. The aim was to significantly increase over five years the volume of projects in which NGOs participate. The promotion of greater NGO involvement in international co-operation has also been identified as one of MoFA's priority policy issues for 2009 and is a high priority for the new government.

There is a number of different NGO support schemes, each of which is managed differently (Table 5). Currently, the majority of NGO support funding is provided by MoFA, mainly through the Grant Assistance for Grassroots Human Security Projects (with an annual budget of around USD 100 million) and the Grant Assistance for Japanese NGO Projects (around USD 27 million annually). Together these accounted for 8.4% of the total grants disbursed in FY2007. MoFA also allocates roughly half of its Japanese NGO project grants through the Japan Platform, an umbrella organisation for Japanese humanitarian NGOs, which then uses it to fund projects carried out by its member NGOs (Annex C). In addition, MoFA provides project subsidies and capacity-building opportunities, with annual budgets of approximately USD 0.3 million and USD 2.3 million respectively. JICA has its own Japanese NGO support programmes, such as

the Grass-Root Partnership Programme (up to approximately USD 485 000 over three years) and NGO management training and also uses NGOs as implementing partners in some cases. Each of these NGO support schemes is managed differently, involving very detailed and time-consuming procedures. As Japan is increasing its support to NGOs it should develop a guidance strategy that clearly defines how it works with Japanese and local NGOs and sets out procedures that are sufficiently streamlined, harmonised and supportive of NGOs' own capacity.

**Table 5. Japan's NGO support programmes**

Programme	Funding scale	Responsible for application and approval	Eligibility
Grant assistance for Japanese NGO projects	Up to JPY 100 million over one year	MoFA or Embassy/Consulate, approval by MoFA	Japanese NGOs
NGO project subsidies	Half of the project cost, or up to JPY 10 million	MoFA	Japanese NGOs
JICA partnership programme	From JPY 10 million up to JPY 50 million, maximum of three years	JICA local branch office, approval by JICA headquarters	Japanese NGOs, universities and local governments
Postal savings fund for international volunteers	Between JPY 5 million and JPY 10 million	Japan Post Service	Japanese NGOs
Subsidy by Japan Fund for Global Environment	JPY 4 million for activities in Japan and JPY 6 million for overseas activities	Environmental Restoration and Conservation Agency	Japanese and overseas NGOs
NGO assistance for agricultural and forestry projects	Deployment of experts, training	Japan Association for International Collaboration of Agriculture and Forestry	Japanese NGOs and their local NGO counterparts in developing countries
Grassroots human security grant aid	From JPY 10 million up to JPY 100 million over one year	Embassy/Consulate, approval by MoFA	Partner country and international NGOs

Source: MoFA ([http://www.MoFA.go.jp/MoFAj/gaiko/oda/shimin/oda\\_ngo/kyoumi/enjyo.html](http://www.MoFA.go.jp/MoFAj/gaiko/oda/shimin/oda_ngo/kyoumi/enjyo.html))

### **Multilateral aid**

On average, around 17% of Japan's total gross ODA was allocated through multilateral institutions between 2004 and 2008, reaching USD 2.4 billion in 2008 (Table B.2, Annex B). In 2008, Japan's overall allocation to multilateral institutions rose from USD 1.9 billion to USD 2.4 billion, a 28.7% increase. This was mainly due to a large contribution to the World Bank (the IDA-15 replenishment). In addition to reported multilateral support, Japan also channels some of its bilateral grant aid through multilateral agencies, *i.e.* multi-bi aid. This is reported as bilateral aid, in line with DAC directives. Japanese multi-bi support amounted to USD 730 million in 2008, an increase of 85% over 2007 (MoFA, 2008). However, the government lacks a framework or strategy for its aid allocation between bilateral and multilateral co-operation and within its multilateral support. At present this process appears to be fragmented, with different ministries and agencies preparing their own budgets without reference to an overall budget framework.

The World Bank group is the largest multilateral beneficiary, receiving on average about 42% of Japan's gross multilateral aid (or 7% of total gross ODA) between 2004 and 2008 (Table B.2, Annex B). Contributions to regional development banks accounted for 17% of multilateral flows (or 3% of total gross ODA) over the same period. Among the regional development banks, the Asian Development Bank is the largest recipient of

Japan's multilateral contribution (12%, Table B.2, Annex B). Japan also works with multilateral development banks through co-financing and other partnership arrangements.

Japan accounts for the second largest share of the United Nations' *regular* budget and is among the largest contributors to several UN agencies. In 2008, UN agencies received 21% of Japan's multilateral ODA (or 3% of total gross ODA). Among them, the United Nations Development Programme (UNDP), the Office of the United Nations High Commissioner for Refugees (UNHCR) and the UN Food and Agriculture Organization (FAO) were the largest beneficiaries in terms of volume (MoFA, 2010). Japan also hopes that its support to the UN Trust Fund for Human Security – which finances projects carried out by UN agencies and places priority on multi-sectoral and inter-agency projects – will promote collaboration among UN agencies on the ground.

Japan's core contributions to UN agencies have, however, been the victim of the budget cuts; the volume of Japan's multilateral funding to UN agencies fell by 54% 2004 and 2008, accounting for 3% of its total gross ODA. For example, Japan was the largest provider of core funding to UNDP in 2001 (accounting for 14.7%), but by 2008 its position had fallen to sixth (a 6.7% share). Similarly, between 2001 and 2008, Japan fell from being the second to the sixth largest supporter of the United Nations Population Fund (UNFPA) and from the fifth to the fifteenth largest supporter of the United Nations Children's Fund (UNICEF). The government plans further cuts across UN agencies in the coming years and has cut its voluntary contributions to UN agencies for fiscal year 2010. (MoFA, 2010). Without a strategic approach to distributing these major cuts, Japan's influence in the multilateral arena could be undermined. Japan should also consider the impact of such large, sudden cuts on its multilateral partners. In contrast, Japan is increasingly using UN agencies such as UNDP to deliver its ODA (*i.e.* as multi-bi) in countries or regions where it is not present or unable to operate directly for security reasons.

Within its voluntary contributions to UN agencies, Japan tends to prefer earmarked to core multilateral funding. This reflects Japan's need to respond to political priorities, to be able to account for and attribute results to its funding, its interest in visibility and, in some cases, its reliance on the supplementary budget. Earmarked funding can outweigh core contributions. For instance, UNICEF receives about USD 150 million on average in annual earmarked contributions from Japan, compared to USD 15 million in core funding. In 2009, UNDP received USD 74 million in core funding but over USD 200 million in additional earmarked contributions. Japan generally accepts the standard reporting procedures of the respective agencies for its core funding, although its earmarked funds often require separate reporting. In addition, Japan often expects agencies to answer very specific queries or prepare separate *ad hoc* reports, often within a very short timeframe, to satisfy its domestic constituencies, notably parliamentarians. In the case of the Human Security Trust Fund, Japan reviews individual concept notes of proposed projects. Previously, Japan also approved project proposals which added an additional layer of bureaucracy both for Japan and for the multilateral organisation administering the fund. The process was simplified in 2008, shortening the average duration of the approval process from 29 months to only 6 months today. Nevertheless, earmarking and separately administered vertical funds involve high transaction costs and may also undermine or duplicate the accountability structures of the multilateral organisations.

Japan recently made some efforts to make its multilateral support more strategic, by shifting funds from poor to good performers. But it is not clear how it assesses good

performance and whether its assessment is driven by accountability or development results. Indeed, since it is reducing almost all its UN agency contributions in 2010, the approach appears neither strategic nor performance-based. Further, there is no strategy for guiding its allocations to, or its engagement with, multilateral agencies, or for strengthening complementarities between its multilateral and multi-bi ODA. Japan would benefit from a strategic framework to guide multilateral allocations; to co-ordinate the two main ministries, and any others involved; and improve coherence between multilateral and bilateral assistance. Japan could use existing multilateral performance assessments, such as the Multilateral Organisation Performance Assessment Network, and the performance data collected by multilateral agencies themselves, to help inform such a strategy. Finally, Japan plans to start reporting its multilateral contributions through the extended DAC Creditor Reporting System (CRS++) from 2010 flows. This is very welcome. By doing so Japan can enhance the transparency of its multilateral flows as well as its private flows and also help further strengthen the overall quality of DAC data.

### **Future considerations**

- In order to meet its existing commitments, Japan should build on the 2008 increase in the ODA budget. To ensure it can make any increases sustainable Japan should:
  - Set a timeline for increasing ODA volume to a level that will allow it to regain ground lost over the previous decade, and make progress towards the UN target of 0.7% ODA/GNI.
  - Obtain political support for an indicative multi-year framework for all ODA including, how, broadly, it will be allocated.
- Japan should review its ODA portfolio to ensure that it meets the requirements of the DAC Recommendation on Terms and Conditions of Aid in all future years.
- Japan is commended for meeting its earlier aid target of doubling aid to Africa, but it should ensure that future targets are suitably ambitious and based on genuine increases.
- The new government's intention to increase its support to and through NGOs should be supported by a clear strategy and a review of the existing schemes – which sets out how Japan will harmonise and simplify NGO funding schemes and ensure its support to NGOs is supportive of their' own capacity.
- Japan could increase the strategic focus of its support to multilateral organisations through a formal multilateral strategy to guide its allocations. Such a strategy should enable it to give greater weight to core funding for those multilaterals judged to be effective and aligned to Japanese priorities rather than earmarked funding and separately-administered funds.

## Chapter 4

### Organisation and Management

#### Japan's overall development co-operation system

Although Japan's development co-operation system involves over 13 ministries and agencies, the system is co-ordinated around a central hub (Chapter 2). The ODA Charter explicitly gives the Ministry of Foreign Affairs the central co-ordinating role for Japanese development co-operation, and around two-thirds of Japanese official development assistance is managed through this ministry and the new Japan International Co-operation Agency (JICA), both of which form the core of the system. JICA is an independent administrative agency, and is held accountable by MoFA through a multi-year performance plan. A relatively good level of consultation between ministries is built into the Japanese government's mode of working and the Overseas Economic Co-operation Council (OECC) helps to co-ordinate ODA policy issues (Chapter 2). The other major player in the system is the Ministry of Finance (MoF), responsible for Japan's contributions to the World Bank, IMF and regional development banks. The Ministry of Finance and The Ministry of Economy, Trade and Industry (METI) are also involved in approving JICA loans. METI also plays a role in the area of public-private partnerships, although its expenditure amounts only to around 4% of Japan's ODA budget. Overall, these three ministries are responsible for around 92% of Japanese official development assistance. The other ministries engaged in development co-operation deal with smaller amounts, mainly as technical co-operation. There are also other agencies involved in development co-operation, most notably the Japan External Trade Organisation (JETRO) which reports to METI. In 2008, Japan reported administrative costs to be around 3% of its total ODA (DAC statistics), excluding JICA, whose administrative costs were around 7.5% (JICA, 2008b).<sup>12</sup>

#### MoFA and the new JICA: reform at the heart of the system

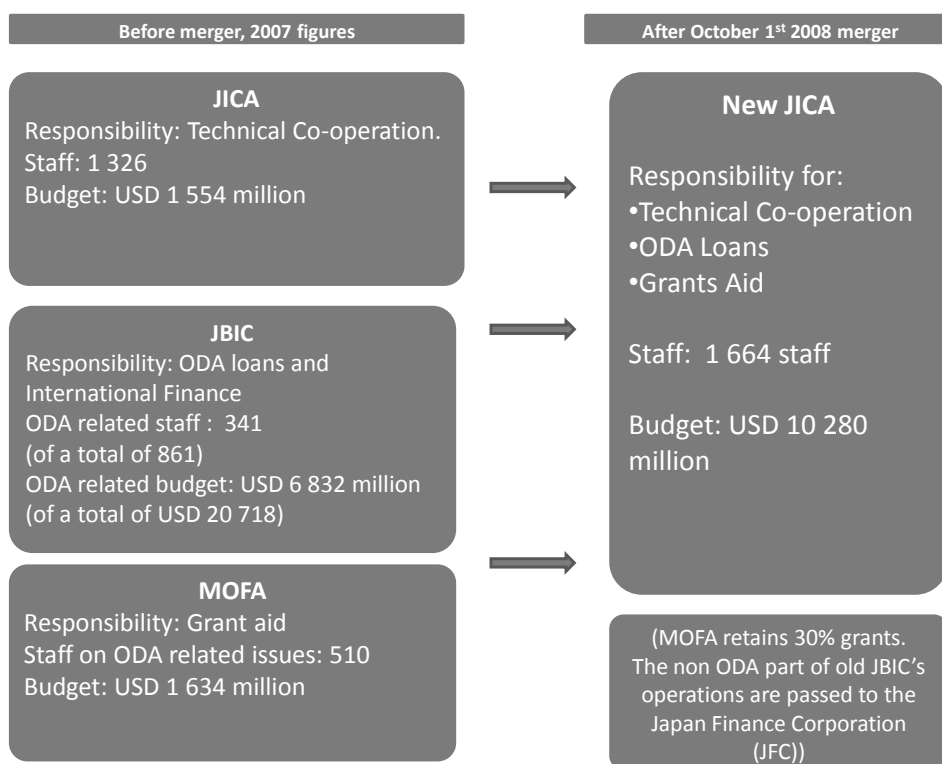
There has been major organisational change at the core of Japan's development co-operation system since the last peer review. The "new JICA" was established in October 2008, incorporating parts of the former Japan Bank for International Co-operation (JBIC) – those parts which managed Japan's ODA loans - and taking on responsibilities for some grants previously managed by MoFA. JICA has been transformed from an agency focused on implementing technical co-operation, to one which has to deal with all three of Japan's ODA schemes: loans, grants and technical co-operation (Figure 4). JICA now manages more money than any other DAC member agency, and roughly half that of the World Bank (JICA, 2008a). The rationale for the merger was to reduce administrative

12 The DAC figure applies to calendar year 2008 and the JICA figure to financial year 2008.

costs over time and to achieve greater efficiency among Japan's three ODA schemes. The merger puts Japan in a better position to improve both the efficiency and effectiveness of its development co-operation system. Internally, the structure of the new JICA is relatively flat, with over 30 departments reporting directly to the organisation's President or Vice-Presidents (JICA, 2008b).

There is no doubt that the union is still in its infancy and that two different organisational cultures are still adjusting, but the review team considers the process and progress so far to be a significant achievement. Already there are signs that Japan will be able to achieve greater synergies among its three schemes. Clear vision, strong leadership, long lead-in times and detailed planning appear to have been factors behind the merger's success. In addition, the fact that the former JICA went through three previous phases of internal reform between 2004 and 2008 may have laid the groundwork for this more substantive change. MoFA has now agreed JICA's medium term plan. Like the previous plan (JICA, 2007a), it focuses on improving efficiency and the delivery of services, but have been adapted for JICA's broader role and press the organisation to achieve synergies among the three schemes.

**Figure 4. The role and resources of the new JICA**

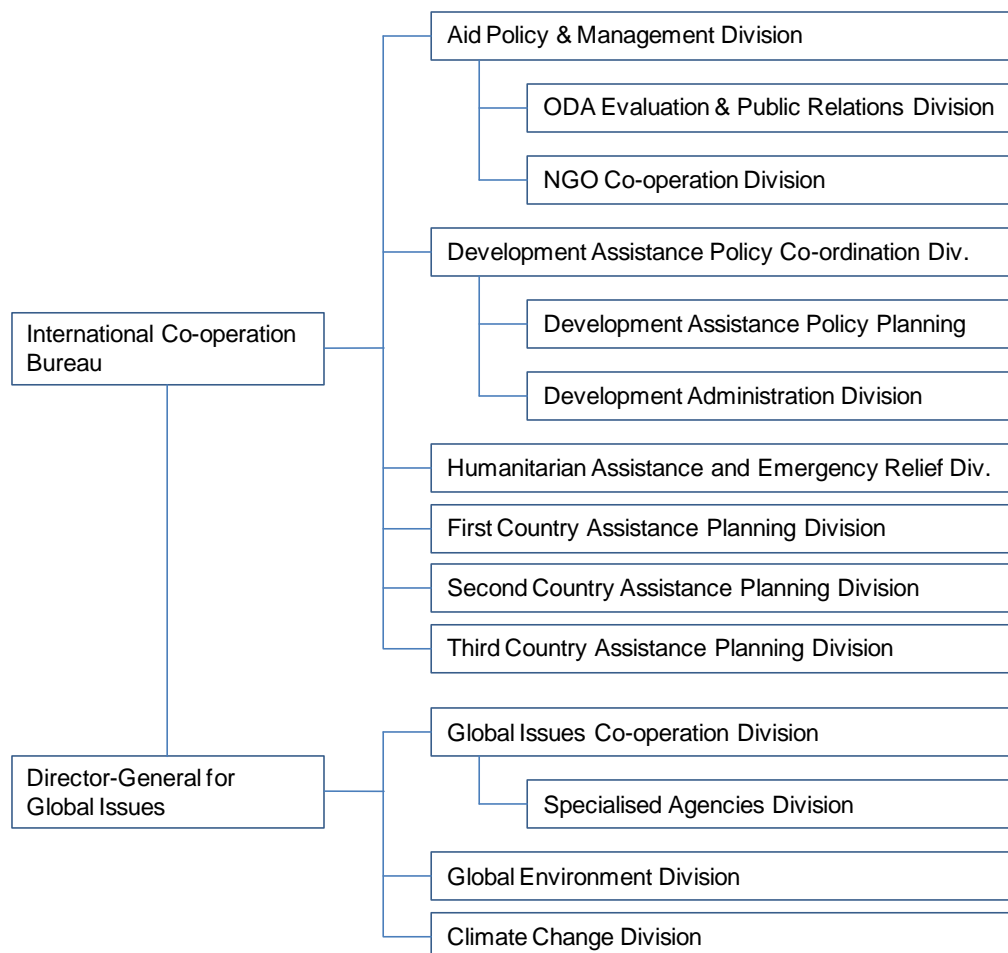


Source: JICA (2008a), *New JICA*, leaflet, JICA, Tokyo.

MoFA's International Co-operation Bureau, which has responsibility within MOFA for development co-operation, was established in 2006 and was restructured in 2009. Previously, the bureau was sub-divided by "scheme" – i.e. it included a grant, a technical co-operation and a loan division. Each worked with different agencies and had minimal cross-over with each other, even when working with the same partner country. The bureau is now structured on a regional basis, encouraging officials to look more holistically at Japan's ODA activities in each country and strengthen the links between the different schemes (Figure 5). Although very recent, this re-organisation - in addition to changes at JICA, changes in the field and the roll out of Country Assistance Plans (CAPs) and rolling plans - is helping Japan to respond to the 2003 peer review's recommendation that Japan move away from an instrument-based towards a country-based approach (OECD, 2003a).

The division of labour between MoFA and JICA within headquarters has become clearer as a result of these changes. Previously, the Ministry was responsible for implementing a large proportion of Japanese ODA grants. Now, the situation is moving towards one in which MoFA mostly sets policies and JICA implements them. This trend, which responds to one of the DAC's 2003 recommendations that MoFA delegate more implementation to JICA, is welcome and could be built on further. The Ministry was previously responsible, for example, for verifying legal contracts, disbursement, and monitoring and evaluation. JICA now handles these functions. JICA can also provide input into policy decisions and its recommendations on projects are now more often followed by decision makers in the Ministry than was the case a few years ago. However, the Ministry continues to have involvement in approving even small JICA projects. The Ministry believes its level of involvement ensures consideration of diplomatic impact, accountability to the public, assessment of partners' development needs and socio-economic impact. Other than diplomatic impact, it is difficult to see how MOFA could be better suited than JICA to consider these issues. For loans, JICA must seek approval from both the foreign and finance ministries. In addition, there are still some areas in which MoFA retains control of implementation – notably in supporting NGOs, though JICA also has NGO support schemes (Chapter 3). Indeed, despite handing over some grant management to JICA in 2008, MoFA still manages around 30% of grants (MoFA, 2008). Japan could examine whether this horizontal division of roles is optimal.

**Figure 5. The new structure of MoFA’s International Co-operation Bureau**

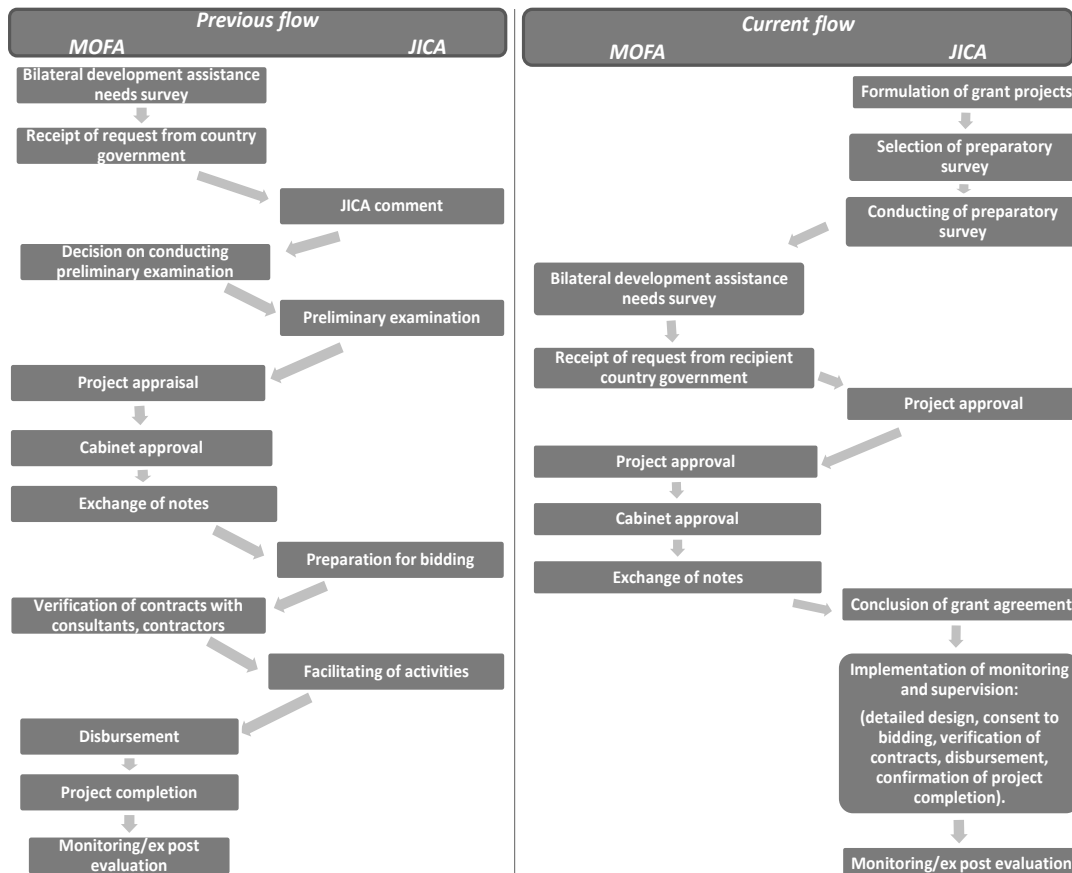


Source: MoFA website.

### Increasing the efficiency of Japan’s business processes

The time it takes for Japan to prepare and approve projects can be lengthy and has been cited by both partners and Japanese staff as a constraint. In part, this relates to a thorough planning and preparation process, including significant consultation in Tokyo, which, though time consuming, does lead to agreement. It should also be noted that once Japan formally approves a project, it acts promptly and Japan’s partners strongly appreciate this promptness and reliability. However, it can take years for some projects to be approved, making it difficult to ensure that the original project design is still appropriate. Greater flexibility is therefore needed to allow projects to be adjusted to new contexts. The merger of JBIC and JICA is helping to reduce the length of the preparation stage because a single survey is now sufficient instead of separate and un-coordinated “preparatory surveys” conducted for each scheme by different organisations (Figure 6). JICA estimates that this is cutting the average preparation time by as much as six months. Japan argues that delays are in part also due to the quality of proposals and sometimes the lack of an initial survey. Japan should therefore invest in quick dispatch of survey teams with appropriate capacity to ensure high quality initial surveys and proposals.



**Figure 6. Grant application processes: before and after JICA reform**

*Note:* This diagram presents a simplified two dimensional process comparing JICA and MoFA roles; it does not differentiate between field and headquarters involvement for either MoFA or JICA.

*Source:* Adapted from JICA (2008a), *New JICA*, leaflet, JICA, Tokyo.

Japan has also introduced a “fast track” system for approving projects, particularly in emergency or conflict situations, though it is only used in exceptional cases. In some emergencies – including recent ones in Bangladesh and Kenya – Japan’s humanitarian assistance has been the first to arrive. During the financial crisis, Japan mobilised technical co-operation for some East Asian partners in less than two months. Such flexibility allows Japan to be a nimble and responsive partner. However, in normal circumstances the time taken to reach agreement can be protracted, and while some delays may come from the partner side Japan should seek to shorten the time it takes. An analysis of the business processes in its development co-operation system could help Japan to improve its efficiency and effectiveness further, by building on progress already made through the merger (Figure 6). Such an analysis could identify opportunities to:

- *Reduce the layers and levels of approval.* Field teams have to wait for missions or approval from Tokyo at various stages so partners usually perceive the “bottleneck” to be in Tokyo rather than in field offices. A simpler approval process would address this. Procedures for multilateral funding, such as MoFA’s approval of individual projects within the UN Human Security Trust Fund, should also be examined.

- *Further harmonise procedures among schemes.* The appraisal, approval and monitoring processes are still broken down by scheme and involve different processes and timeframes. Japan should harmonise more of its procedures, as it has already done by introducing a single set of guidelines for environmental and social considerations and consolidating its preparatory surveys.
- *Streamline cumbersome procedures.* For those projects where political and financial risks are relatively low, procedures could be streamlined. MoFA staff appraise every project in detail irrespective of the type and scale. The procedures for small grants for NGOs are time consuming, for example, and staff in embassies and headquarters invest a lot of time in assessing and appraising applications for very small grants. Between JICA and MoFA there are at least seven different such schemes, each with different procedures (Chapter 3).

### **Building a more field-orientated system**

Japan's ODA Charter and Medium Term Policy clearly support the concept of field orientation (GoJ, 2003; 2005a). In addition, since JICA became an independent agency with a new and strong president in 2003, turning it into a more field-orientated organisation has been a central aim. JICA has sought to strengthen its overseas offices and has made progress. The merger may have helped since Japan is moving from a scheme-based to country-based system. However, Japan will need to continue to strengthen its field offices and delegate authority to them, in order to achieve further field orientation.

#### ***Increasing field input into strategies***

Japan is rolling out two related mechanisms to help increase field orientation: first, ODA task forces and second, the use of CAPs and rolling plans. Together, they allow a greater role for the field in agreeing priorities for country programmes and helping to co-ordinate embassy and JICA field input:

- Country-based ODA task forces are composed of staff from embassies, JICA offices and other Japanese government organs such as JETRO. In some cases, representatives of the Japanese private sector are also included. The task forces help to formulate the CAP and individual projects. Their recommendations are taken seriously by both MoFA and JICA headquarters teams. Having an agreed position relayed from the field is helping headquarters make well-informed and potentially faster decisions (Ohno, 2010). ODA task forces also provide a mechanism for in-country consultation with partners, a strength on which Japan should build further. Currently there are 79 ODA task forces (GoJ 2009). Since Japan provides ODA to more than 130 countries, and JICA has more than 90 overseas bases, more widespread use of task forces could be useful to ensure consultation among Japanese stakeholders, partner countries and local civil society.
- Country Assistance Programmes (CAPs) exist for 28 countries, and are intended to set the priorities for all Japanese assistance there. Japan has also produced around 80 rolling plans, which are lists of ongoing projects. Although some earlier CAPs lacked clear objectives and ways of measuring progress, the latest generation addresses that need better (Annex D). Establishing a clear strategy and intended outcomes is vital and helps staff select appropriate projects from applications received. More widespread use

of up-to-date, clear and prioritised CAPs, drawn up with greater input from the field and well aligned to partner strategies and harmonised with other donors’, should therefore be encouraged.

### ***Delegating authority and decentralising staff***

Formal approval for all bilateral projects, irrespective of size, can only be given by MoFA headquarters; thus all JICA and MoFA-managed projects must go through Tokyo for approval. For JICA’s technical co-operation projects worth less than 200 million Japanese Yen (USD 2 million), an annual implementation plan can be approved by the field office head. For bigger projects, the head of JICA’s field office must seek further approval from the director of the relevant regional department at headquarters. However, for all grants and loans, annual implementation plans have to go to Tokyo, again irrespective of project size. This difference in approach for projects *versus* grant and loans highlights the potential for harmonising procedures across the three schemes (while retaining some necessary specificities) and to review the vertical division of labour in order to increase field orientation and increase efficiency. For example, field offices could be allowed to move forward on the basis of annual implementation plans, or smaller projects could be delegated to the field regardless of funding scheme. Since Japan now has umbrella country assistance programmes and rolling plans, it has a good base on which to delegate more responsibility of the field to implement component projects. In addition, some partners perceive that a more general lack of decentralisation to the field leaves field staff feeling too constrained in what they can do and how substantively they can engage in external dialogue at field level (Chapter 5).

Posting a greater proportion of staff to the field is central to Japan’s field orientation strategy. Excluding locally engaged staff, Japan has not increased the proportion of Japanese staff stationed in the field since the last peer review. Indeed, for JICA there has been a slight decrease though this should be seen in the context of the merger, which may have skewed the trend temporarily. In 2009 413 of JICA’s 1 664 staff (or around 25%) were stationed in the field. But with around 1 200 locally engaged staff (including *all* grade and types of staff) bringing the proportion of JICA staff in the field up to 56%. Locally-engaged staff are an extremely important part of JICA field offices. So it is important to note that across the system, i.e. including both JICA and MoFA, Japan reported in 2008 that 55% of its staff (including both expatriates and *all* types of local staff) were based in the field (OECD 2009m). Posting periods to the field - for both MoFA and JICA headquarters staff - vary from two to four years, with shorter periods for less popular or more difficult “hardship” postings.

## **Human resources: the heart of the system**

The quality of Japanese development co-operation is ensured through its very committed staff; however, with high workloads these staff are under pressure both in the field and in headquarters. In 2008, the Ministry of Foreign Affairs had 510 development-related staff (excluding locally employed staff) finance had 63, trade and industry 50, and JICA 1 664 (GoJ, 2009). Tight financial constraints mean that strengthening human resources is a challenge. For example, according to its 2003-2007 medium-term objectives, JICA was expected to reduce general administrative costs of headquarters by 10% during the period (JICA, 2003b). The new government has also asked JICA to bring down staff salaries, while JICA’s new medium term plan commits it to a further 3%

reduction per year in general administrative costs (JICA, 2007a). Despite these constraints, the number of people working on ODA-related issues in both MoFA and JICA increased between 2003 and 2009, driven by external recruitment and short-term contracts. However, there has also been a reduction in staff benefits, which has been particularly felt by those in the field. The new JICA has also assimilated some former JBIC staff. It should also be highlighted that while JICA staff numbers have increased by one-quarter since 2003, its budget – because its portfolio now also covers ODA loans and some grants – has seen a six fold increase (Figure 4). This indicates staff workload is still high, as noted in the 2003 peer review.

Since it is unlikely that Japan will be able to increase staff numbers significantly, it will be crucial to improve staff workload by streamlining and harmonising procedures, as discussed above. Japan will also need to increase the capacity of current staff and make more use of its high-calibre locally-engaged staff. As in all organisations, staff capacity development is crucial. Japan's major reform requires staff previously managing only one scheme to now be immediately competent to manage all three. JICA has already provided training to try to address this, but, given the magnitude of the change, will need to continue to focus on this area. Language training also needs to be a priority to allow staff to better engage at field level. While some field staff need training in the language used in partner government and aid circles, it should also be noted that Japan Overseas Cooperation Volunteers have been praised for taking the time to learn local languages. Japan, particularly JICA, makes increasing use of locally-engaged staff in its country offices. In the two countries the review team visited (Annex D), highly competent local project staff were satisfied working in a Japanese team environment and with their job security and expressed an interest in taking on greater responsibilities. To enable local staff to play a fuller role and to climb the career ladder, Japan needs to support their capacity development. Currently, such development is limited by the fact that some training, guidance and other important documents are available only in Japanese. JICA is starting to translate more documents, at least 60 are planned to be translated to English in 2010.

### **Accountability, evaluation and managing for results**

Japan places a high priority on domestic reporting and accountability. It has a comprehensive internal evaluation system for Japanese ODA which has two objectives consistent with DAC principles: (i) providing a basis for accountability; and (ii) learning to improve future performance (MoFA, 2009; OECD, 1998). MoFA and JICA are responsible for the majority of ODA-related evaluations. However, since there are 11 other ministries and agencies involved in Japanese ODA, and which also conduct evaluations, co-ordination is challenging. MoFA needs the tools and authority to ensure appropriate coverage and standards in all ODA-related evaluations. In addition to internal evaluations conducted by ministries and implementing agencies, Japanese ODA is also scrutinised by the Japanese Board of Audit. The board looks at regularity, efficiency and effectiveness in around 10 countries and 100 projects per year. It publishes a consolidated annual audit report and MoFA provides updates on the corrective action taken. The *Diet's* House of Councillors also sends three to four field missions a year, which produce reports to the Upper House in the *Diet*, and on which MoFA and JICA are required to act.

MoFA and JICA have established a division of labour for evaluation. MoFA is responsible for policy, thematic and programme level evaluations (including evaluations of country programmes and sectors). JICA is responsible for evaluating individual

projects and programmes, at the implementation level (with the exception of some grant projects still operated by MoFA). Each organisation has its own evaluation guidelines, both of which reflect DAC evaluation criteria. Each has its own evaluation work plan, publishes evaluation results and produces annual evaluation reports. However, there are some variations and issues. For example:

- In addition to the five DAC evaluation criteria, MoFA has added the sixth criteria of “visibility” to its grant evaluations (MoFA, 2009b). This reflects the priority the ministry attaches to the visibility of Japanese ODA both to recipients and domestically (MoFA, 2007b).
- In MoFA, the evaluation function is within the Office for Evaluation and Public Relations. It reports to the Aid Policy and Management Division. This has implications for its operational independence from management (OECD, 1998). MoFA has introduced an External Advisory Meeting on ODA evaluations and once the Ministry identifies topics the majority of evaluations are led by third parties. Nevertheless, Japan should examine whether the current location of the internal evaluation function in MoFA ensures its independence, credibility and usefulness for organisational learning. JICA has a separate evaluation department which conducts a significant number of project evaluations and supports evaluation focal points in field offices.

The 2003 peer review highlighted the need to improve the feedback of evaluation findings; Japan has since increased its attention paid to this area. For MoFA, the External Advisory Meeting identifies feasible recommendations to be followed up on an annual basis. However, it is not clear how these recommendations are prioritised or selected. For JICA the recommendations relating to poor performing projects are reported to its board. To help make use of lessons from evaluation at working level JICA has established a database of evaluation lessons which staff can search by keyword. Identifying such lessons when designing new projects was made mandatory in 2004 (JICA, 2005a) following a study of how staff had previously been making use of evaluation findings (JICA, 2004b).

One very important and distinctive feature of Japan’s project evaluations is the high degree to which they are conducted jointly with partner governments. Such evaluations offer greater potential for lessons to be learnt by both parties. Japan has also carried out a small number of evaluations jointly with other donors and with partner NGOs. It has conducted some impact evaluations of major loan projects, and is considering doing more. Like many other donors, Japan is grappling with the issue of how to attribute results. Japan should examine ways to design, monitor and evaluate Japan’s contribution to wider outcomes and impacts, not only those where the results are directly attributable. This will help it communicate broader results to the public and participate more in joint approaches.

### ***Further developing results-based management***

At project level Japan has the building blocks of results-based management (RBM) in place and seeks to ensure they are applied in practice. At the programme level RBM is still in early stages. The cycle “Plan, Do, Check, Act” is at the core of JICA’s efforts to manage its projects by results and has become a mantra amongst JICA staff. Projects are designed and monitored using a logical framework or “project design matrix”. JICA has also produced a handbook on using outcome indicators for technical co-operation projects (JICA, 2005a) which provides a step-by-step guide and talks about the ideals and the

realities of measuring outcomes in technical co-operation. Such an outcome focus, with practical guidance at the design stage, should be applied more systematically in Japan's other schemes. Teams in JICA are now encouraged to base project design on the ultimate delivery of a service, rather than to see the successful completion of a project as an end in itself. Japan could build on its project level experience to ensure its overall country programmes are designed and managed for results, with clarity on how exactly individual projects will contribute. The inclusion of clear overall objectives in more recent CAPs is an indication that Japan is moving in this direction. As part of a wider effort to create a learning culture, JICA has established a system of knowledge management. Thematic teams are charged with identifying lessons and good practice to help staff improve future results. The new JICA Research Institute, established in 2008, was intended to help staff connect with academic research and evidence. However, in 2009 the new government identified research as an area for cuts, which may thwart this effort. Performance and research information should also be collated and analysed in order to inform high level policy and decision makers, in addition to project staff. For both constituencies, learning from failures as well as successes is important.

### **Future considerations**

- Now that the new JICA is up and running, Japan should take stock and build on its achievements by:
  - Re-visiting the horizontal and vertical divisions of labour within the system, *i.e.* examining whether JICA can absorb more implementation responsibilities and whether more decision-making authority can be given to the field.
  - Streamlining project procedures further, particularly for NGO grants, and harmonising procedures across the three schemes.
  - Investing in further increasing staff capacity, particularly through training to help staff manage and seek synergies among schemes. Ensure training and documents are accessible to all key people in the field, including non-Japanese speakers.
- Japan is encouraged to share lessons on the successes and challenges of its organisational merger, with other donors.
- Japan could improve evaluation of its development co-operation further by reviewing the location of the evaluation function in MoFA and also equipping it with the tools and authority to ensure appropriate coverage and standards of all aid related evaluations, including those led by other ministries.
- Building on its results-based management approach at the project level, Japan should ensure a robust approach at the programme level. It should ensure all country programmes have clear and measurable objectives, to which projects are designed to contribute.

## Chapter 5

### Aid Effectiveness

#### Commitment to the aid effectiveness agenda

Japan has endorsed both the Paris Declaration on Aid Effectiveness (OECD, 2005b) and the Accra Agenda for Action (OECD, 2008e). Japan is at the forefront of donor efforts in implementing some aspects of the aid effectiveness agenda – such as capacity development and triangular co-operation – while taking a more cautious approach with others, such as the use of pooled funding and its approach to division of labour amongst donors. Japan is eager to ensure that, while seeking to make its aid more effective and achieve development results, it is still able to retain its distinctive Japanese approach. It has produced an action plan to help it implement the Paris Declaration, covering various themes which it regularly monitors (Box 6; GoJ, 2006). Japan’s follow-up on actions “after Accra” emphasises existing areas of strength in Japanese co-operation (OECD, 2009b). It is therefore important to continue to monitor improvements against the original action plan in order to ensure further progress. Japan is engaged in the DAC-hosted Working Party on Aid Effectiveness and co-chairs the group on assessing progress; it is also the focal point on capacity development issues within the working party. In addition to participating at field level, Japan will also take part at headquarters level in the 2010 monitoring survey of the Paris Declaration.

#### **Box 6. Japan's action plan for implementing the Paris Declaration**

Japan’s 2006 plan for implementing the Paris Declaration includes actions on each of the following themes:

- Enhancing alignment of Japan’s ODA with partner countries’ national development strategies by participating in joint analysis and joint arrangements.
- Capacity development, including through mainstreaming capacity development, supporting partners to conduct their own diagnostic work, and supporting South-South co-operation.
- Public financial management (PFM), by assisting countries with PFM reform and improving aid predictability at project and programme level.
- Untying aid through implementing the DAC recommendation.
- Rationalising aid procedures, including procedures for grant aid, supporting partner capacity in procurement, auditing etc., and reducing the number of bilateral meetings and missions.
- Managing for development results, including through step-by-step introduction of RBM into country programming and aligning RBM framework with partner countries.
- Enhancing the planning and implementation framework of Japan’s ODA by reviewing and rationalising procedures, and strengthening the functions of field offices.
- Monitoring and evaluating progress against the action plan

Within the Japanese development co-operation system there is a sound basic knowledge of aid effectiveness issues. Japan has provided staff with theoretical training on aid effectiveness, including staff in the field through distance learning. In fact, based on the two countries the team visited, staff in the field have a stronger practical knowledge than those in HQ because they are engaged in country level discussions. Field staff also see first-hand the benefits of better co-ordination and alignment. They work hard to find ways to align and harmonise their approaches, while still retaining distinct projects which adhere to Japan's specific approach and priorities. Japan's action plan identifies strengthening the function of field offices as a core action for both efficiency and effectiveness; progress on field orientation, delegation and decentralisation were discussed in Chapter 4. Introducing more operational training and providing incentives for staff to increase aid effectiveness could also help Japan make further progress against its action plan. To enhance its own understanding and to contribute to the wider debate, Japan has co-funded studies on aid effectiveness in the infrastructure sector (Garnett *et al.*, 2009); on aid effectiveness and providers of development co-operation outside the DAC (OECD 2008e); on effective technical co-operation for capacity development (JICA 2008d) and on mutual accountability (Garnett *et al.* 2009). It has also co-sponsored regional aid effectiveness initiatives, including the 2006 Asian Regional Forum on Aid Effectiveness, and the Capacity Development for Development Effectiveness facility (CDDE) since 2009. Japan has also started to engage with interested Japanese NGOs on aid effectiveness issues; a deepening of this dialogue would be welcomed by NGOs.

## Progress against the Paris Declaration principles and indicators

**Figure 7. Progress against selected Paris Declaration Indicators**

Indicator	2005	2007	Direction of travel
Aid flows are aligned on national priorities	31%	45%	↑
Strengthen capacity by co-ordinated support	74%	76%	↔
Use of country public financial management systems	29%	62%	↑
Use of country procurement systems	26%	61%	↑
Avoid parallel implementation structures	2	2	↔
Aid is more predictable	32%	48%	↑
Aid is untied	89%	95%	↑
Use of common arrangements or procedures	33%	52%	↑
Joint missions	2%	2%	↔
Joint country analytic work	52%	31%	↓

*Note:* The surveys covered 33 countries and less than half of Japan's country programmed aid. Figures for untied aid relate to those countries specifically, rather than the full untying status. Figures for parallel implementation units relate to the number of units in those countries.

*Sources:* OECD (2007c), 2006 Survey on Monitoring the Paris Declaration: Overview of the Results, OECD, Paris; OECD (2008a), 2008 Survey on Monitoring the Paris Declaration: Making Aid for Effective by 2010, OECD, Paris.



The OECD's monitoring surveys of the Paris Declaration highlight Japan's progress against key aid effectiveness indicators (Figure 7; OECD, 2007c and OECD, 2008a). Such progress demonstrates that Japan can deliver more effective aid. Other indicators highlight ongoing challenges, where additional effort will be necessary to increase aid effectiveness.

### ***Ownership and alignment***

Partner ownership and an emphasis on self-help and capacity development are central to the Japanese development philosophy. Indeed, where partner ownership is strong in practice, it has been a key success factor (Box 9, Chapter 6). Japan sees capacity development as crucial to ensure partner countries are able to take full responsibility for their development. Japan's approach to identifying projects is also based on country ownership – it responds to requests made by partner governments for support for specific initiatives. For this approach to ownership to succeed, however, it is crucial that the initiatives do originate from partners and align with their overall priorities, not just those of the line ministry. Increasingly, requests for Japanese support officially come via a co-ordinating ministry, usually within the ministry of finance. In other countries a request may come via the foreign ministry or from another nominated ministry but officially not directly from line ministries. Where Japan makes certain this procedure is followed in practice and avoids other informal channels, it has helped Japan to ensure its support is aligned to overall partner priorities and facilitated the oversight and co-ordination role of the partner government. It has also reduced transaction costs for both donor and partner.

The monitoring surveys indicate that Japan has more than doubled its use of partners' public financial management and procurement systems (Figure 7). This is commendable and Japan can continue to improve against the measure by ensuring more of its grants in addition to its loans, make use of country systems, including smaller projects. Japan is aligning more of its support to partners' nationally-defined priorities, for example, its Country Assistance Programmes (CAPs) increasingly reflect the priorities stated in partners' poverty reduction strategy papers (PRSPs). As Japan drafts new CAPs and updates old ones it could further increase their alignment with partner priorities. The CAP drafting process now also includes consultation with partners, led by Japan's ODA task forces (Chapter 4). In many cases, Japan also tries to align with partner government sector strategies. However, with less than half of its support on partner budgets in 2007 it will need to go much further if it is to meet the 85% target in the Paris Declaration (Figure 7). Since Japan's approach is to work closely with partner governments, it avoids the use of parallel project implementation units where possible, preferring to integrate its technical co-operation experts into partner governments' own ministries and implementation units. However, around a quarter of Japanese technical co-operation is not co-ordinated, according to the surveys. Given that technical co-operation is a major component of Japanese development co-operation, Japan should seek to further improve its alignment and co-ordination in this area.

### ***Predictability and reliability***

Although limited by its single-year budgeting system and use of a volatile supplementary budget (Chapter 3), Japan has made efforts to increase predictability. Once Japan formally agrees to fund a project, an annual disbursement plan is then decided and shared. In the case of large loan projects, which usually run over several years, this gives predictability for the project duration. Furthermore, Japan has established a reputation for

reliability – once an agreement is signed, Japan disburses as agreed, when agreed. It rarely delays or varies disbursements. This is partly possible because of joint preparation work before agreement is reached but also because Japan attaches few conditions to its projects, based on its philosophy of non-interference in political matters. The in-year predictability of Japanese aid – *i.e.* the correlation between what it commits and what it actually disburses in one year – has improved according to the monitoring surveys. However, the average country ratio of committed to disbursed funds (48% in 2007), hides significant variations – for example, Bangladesh (94%) and Kenya (26%). Japan may be able to increase in-year predictability further by learning from cases such as Bangladesh, where in year predictability has been high. In addition, Japan is trying to increase its own and its partners’ ability to forward plan through using a five-year rolling plan for each country. These have been particularly useful tools where indicative figures can be shared informally with partners, in addition to formally agreed disbursement schedules. Staff have also used official commitments – such as TICAD (Box 3, Chapter 1) – to provide some partners with an indication of the volume of support in future years.

### ***Harmonisation and co-ordination with other donors***

Japan is increasingly engaging and harmonising with other development partners, though the depth of its engagement tends to vary across sectors and countries. According to long-term observers, the level of Japanese engagement with other donors at field level now, compared to a decade ago, has increased and is welcomed. Japan can engage in country-level joint assistance strategies: in Bangladesh, it has agreed to sign up to a planned joint strategy and has already agreed a joint strategy with the three other largest donors there. In Kenya, it is party to the joint donor strategy and intends to use this to help inform its next CAP there (Annex D). In both countries, Japan participates in high level and sector working groups. Other donors strongly welcomed the level and quality of Japanese engagement, noting in particular that where Japan has taken a leading role, such as chairing or co-chairing a sector group, staff were highly competent and well engaged. Some also noted that such leadership could be strengthened by closer engagement in relevant policy-level issues, such as regulatory reform or governance issues within that sector. This engagement could reduce risks to Japanese investments in these sectors as well as improve development results. In addition, partners thought that Japan, as a major donor in both countries, could have more of an impact and help to set the aid effectiveness agenda in-country, by exercising its voice more robustly in aid co-ordination forums. The perception amongst some donors was that limited delegation of authority to the field staff was an obstacle to this process (Chapter 4).

Japan considers that while aid harmonisation and division of labour is generally positive, it wants to avoid homogenisation in terms of the types of support donors can offer to partners, or monopolisation of particular sectors by individual donors, to ensure that partners still have an element of “choice”. So, while Japan is increasingly trying to co-ordinate with other donors, it prefers to remain active in a range of sectors based on direct bilateral engagement with partner officials. Nevertheless, Japan is now trying to rationalise the number of sectors in which it engages substantively, in order to increase its own efficiency. As this approach can also help reduce transaction and co-ordination costs for partner governments it should be encouraged, particularly in those partner countries where Japan is one of many donors and limited partner “choice” is unlikely to be a problem. Tokyo also cites the element of partner choice in its decision to retain or increase the number of countries in which it works, rather than focusing on a smaller number (Chapter 3). Japan could do more to harmonise on a practical level. Both the

Paris Declaration and Japan's action plan encourage joint missions and assessments. However, as the survey notes, Japan has not yet made progress against these indicators (OECD, 2008a). In fact, joint analytical work seems to have decreased in the countries covered – a trend which Japan should seek to reverse. Some partners in the two case study countries also asked for Japan to share its work plans and findings more widely in the absence of joint analysis.

While neither pooled funding nor budget support is ruled out, in general Japan takes a cautious approach and tends to use separate funding channels. Japan can and does use some types of budget support in selected countries, notably in support to other Asian countries following the financial crisis. Japan committed, on average, USD 244 million annually (or about 2% of total ODA) as budget support between 2004 and 2008, 92% of which was allocated to Asian countries. Yet field staff feel that pooling funds is not generally encouraged, because of concerns in Tokyo about ensuring the visibility of Japanese aid both to recipients and to the Japanese public. The ability to attribute specific results to Japanese funds is considered crucial for domestic accountability. However, in some cases, particularly with smaller projects, pooling funds could increase the impact of Japanese funding and reduce transaction costs for partners. In both Kenya and Bangladesh, unlike most other donors, Japan did not use the pooled fund in the education sector, even though it was the preferred channel for both partners. Japan could better encourage field staff to propose pooled funding mechanisms as one of several possible options to headquarters, including by assuring teams it will be considered a valid option.

Although Japan may be cautious about pooled funding, in both Bangladesh and Kenya the review team saw that staff have tried to ensure that projects are nevertheless situated within wider government programmes and sector-wide approaches, and that information about Japanese projects within the sector is shared with other donors. These are programme-based approaches in that they work within the partner's programme, but their funding and management is separate. In one case in Bangladesh, a Japanese project was described as “complementary rather than parallel” to the bulk of the initiatives run through a pooled fund. Similarly, in the energy sector in Kenya, although keeping funding and project management separate, Japan is delivering a component of a national programme. These achievements indicate how Japan is able to co-ordinate with other donors under the umbrella of a broader partner strategy even without pooling funds. This can reduce transaction costs, increase the impact and decrease the risks for Japanese ODA. The review team encourages Japan to take such an approach more systematically where it feels pooled funding is not possible.

### ***Accountability and managing for development results***

Japanese officials work within a structure characterised by high levels of domestic reporting. Japan has also made some inroads into results-based management (Chapter 4). Japan is gradually drawing on more jointly-agreed indicators, though since Japan's portfolio is project-based these are supplemented by other indicators. Japan has also supported statistical capacity development in partner countries (Chapter 6). In line with its action plan, Japan has revised how it designs its CAPs to ensure the overall objectives are clear and better aligned with partner country objectives and indicators. Recently, Japan has expressed interest in shifting the debate from aid effectiveness, with its focus on process, to development effectiveness, *i.e.* a focus on results. Clearly, it is crucial to get the systems right in order to maximise results and value for money, but this emphasis

provides a good foundation for Japan to build on existing commitments at the next High Level Forum on Aid Effectiveness, in 2011.

Transparent funding and providing support on-budget are important for partners to improve their own accountability. However, the surveys indicate Japan is not on track with the alignment target, which is measured through the proxy of the percent of funds provided on budget (Figure 7). In Bangladesh, Japan has shared financial information with the government and all development partners, helping the government of Bangladesh to provide more detailed information to its own parliament. Also in Bangladesh, the government's Harmonisation Action Plan was designed as a mutual accountability tool (Annex D). Japan is also supportive of partner country-led reviews, as illustrated by its funding to the Government of Bangladesh to review implementation of the Paris Declaration there (Choudhury, 2008).

Support to partners' aid accountability mechanisms, or stakeholders such as parliaments and civil society, is not a prominent feature of Japanese development co-operation. While Japan establishes strong relationships with many partner governments it tends to avoid building similarly good associations with those that may be seen to play a political role within partner countries, or indeed press partner governments on domestic accountability issues. The small grants it provides to NGOs (whether Japanese or in partner countries) are usually for implementation, and seldom for advocacy. Yet, increasing support to local NGOs and others engaged in accountability would dovetail well with the Japanese public's interest in transparency and accountability of funds and the new government's interest in increasing links with NGOs. Japan also works with local government in some countries – in Bangladesh it was looking at the link between communities and local administrations. Japan has taken the accountability of its own citizens seriously and recently prosecuted citizens engaged in corrupt practices (notably the 2008 PCI - Pacific Consultants International - case in Viet Nam), and has reviewed its procedures to reduce the risk of repetition.

### **Japan as a bridge-builder**

Japan is developing a reputation as a bridge-builder between important constituencies. Firstly, “triangular” co-operation – where Japan provides support for co-operation between two Southern partners (South–South co-operation) – is now an important feature of Japan's approach (Box 7). Every year between 2000 and 2007, Japan provided such support – usually in the form of experts or training – to over 30 countries, training more than 2 000 – 4 000 people each year (JICA, 2007b). Japan has made efforts to share its decades of experience in this area with the wider donor community and works closely with the UN Special Unit on South-South Co-operation UNDP's South- South Trust Fund. Japan is using its experience of supporting Asian South-South co-operation in building Asian-African co-operation, an area highlighted as a priority in the TICAD process (Box 3, Chapter 1). The review team saw how a Japanese project in Kenya included training in Tokyo, the Philippines or Malaysia (Chapter 6). Satisfaction with third country inputs was high and it provided better value for money for Japan.

### **Box 7. Japan and triangular co-operation**

#### **Policy background**

- The ODA Charter states that Japan will actively promote South-South co-operation.
- The Medium Term Policy identifies support to South-South co-operation as one way Japan can support self-help.
- JICA's medium term plan (2007-2012) outlines its role in supporting South-South co-operation.
- TICAD III and IV both emphasised the importance of Asia-Africa co-operation.

#### **Channels and mechanisms:**

- In 1996 Japan started to earmark its contribution to the then Japan Human Resource Development Fund at UNDP to support South-South co-operation initiatives. Through the general Japan-UNDP Partnership Fund, Japan remains one of the main contributors to the UNDP South-South co-operation initiatives.
- JICA established a task force on South-South co-operation to encourage its use within country programmes.
- Japan has agreed a Partnership Programme for South-South co-operation, through which it has signed agreements with 12 providing countries.
- Japan supports a JICA-ASEAN annual co-operation conference, including discussions about concrete projects.

#### **Lessons from Japan's experience:**

- Ensure projects respond to beneficiaries' demands rather than providers' supply.
- Ensure good communication between (often many) participating organisations.
- Provide appropriate language, technology and equipment.
- Make use of and strengthen local stakeholder networks for smooth communication and follow-up
- Draw on local and regional expertise to support capacity development
- Identify complementarities among different channels and southern partners
- Promote regional co-operation

Secondly, Japan is engaging and working with non-traditional donors. Both in Tokyo and in the field, Japan recognises that it can play an important bridging role between new Asian donors and traditional donors. Its efforts to engage Asian donors were evident in Kenya, where the Japanese Embassy was briefing China and Korea and encouraging their engagement in aid co-ordination meetings. Japan also supported a study on non-traditional donors and aid effectiveness for the OECD DAC Working Party on Aid Effectiveness ahead of the Accra High level Forum in 2008 (OECD, 2008e).

### **Consolidating progress in untying Japanese aid**

The DAC 2001 recommendation on untying called on DAC members to untie ODA to the least developed countries (OECD, 2001c). This was extended to heavily indebted poor countries in later versions (OECD, 2006g; 2008h). Technical co-operation and food aid are not covered by the recommendation. In line with this agreement, Japan has significantly increased the proportion of its aid which is untied. According to figures reported to the DAC, 84% of Japanese bilateral ODA was untied in 2008, above the DAC

average of 81% and up from 80% in 2007.<sup>13</sup> However, there are also a number of issues which should be addressed in order for Japan to continue to make progress on untying:

- Japan does not report the tying status of around 13% of its bilateral ODA, this is mainly accounted for by technical co-operation. Japan is encouraged to report the tying status of all of its ODA, including technical co-operation, though the main creditor reporting system.<sup>14</sup> Japan is also encouraged to improve the detail of its reporting – including ex-ante contract notifications and the distribution of contracts awarded.
- In 2008, signatories to the Accra Agenda for Action agreed to develop action plans to untie “further” their aid to the “maximum extent”. This statement was agreed at a time when DAC members were already expected to have untied aid to the areas covered by the recommendation.<sup>15</sup> The Secretariat and the majority of DAC members consider the Accra commitment to apply to all aid, beyond the recommendation (OECD2010b). However, while Japan considers the commitment could apply to all aid it believes that it does not necessarily require member countries to untie beyond the scope of the original recommendation – *i.e.* other than LDCs and HIPC and including technical co-operation and food aid. So, its untying plan is just to continue to untie in line with the recommendation and does not go further. The peer review team encourages Japan to develop a plan, including clear targets and timelines, for untying aid above and beyond the areas covered in the recommendation.
- In 2002, Japan introduced STEP loans (Special Terms for Economic Partnership) which are explicitly tied to the procurement of Japanese goods and services. In order to adhere to the OECD Arrangement on Officially Supported Export Credits (OECD 2009) Japan offers particularly good terms with these loans (Box 8). But it has made its tied loans more concessional than its untied loans, which can act as an incentive for partner countries to choose tied conditions. Japan should, therefore, ensure that its untied loans are as favourable as its tied loans. Further roll out of the STEP scheme could also threaten the progress Japan has made in untying. If Japan is to untie further, it will need to phase out STEP loans.
- Japan considers a project to be untied even if it requires the primary contractor to be Japanese (which is the case for many grants). It justifies this on the grounds that the primary contractor is the project manager and is able to sub-contract freely. Using an agent to manage the procurement process is not an unusual practice within the DAC. However, Japan uses primary contractors to manage the implementation of project grant aid. To ensure its reporting is in line with that of other DAC members, where primary contractors have to be Japanese and can act as both agents and suppliers of goods or services (including management), Japan should report such aid as tied.

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13 These figures are based on reporting to the DAC and differ from those in the survey monitoring the Paris Declaration (Figure 8) because they cover all countries rather than just the sample included in the surveys.

14 The 2007 Reporting Directives for the Creditor Reporting System encourages DAC members to report technical co-operation at the individual activity level, it states that at the least they should report annual aggregates of untying status for LDCs.

15 The target date to untie under the original recommendation was 1 January 2002, and under the 2008 update it was 1 October 2008. The Accra Agenda for Action was agreed in September 2008.

### Box 8. Using Special Terms for Economic Partnership (STEP) loans

Japanese STEP loans – the terms of which are concessional and tied – can be offered to any country other than least developed countries (LDCs) and upper middle income countries (UMICs). Partner countries are required to procure at least 30% of the project total cost as Japanese goods and services and the loans can only be used in certain sectors relating to infrastructure and environmental projects. In 2008 STEP loans accounted for around 10% of loan disbursements. The rationale of STEP is to raise the visibility of Japanese ODA amongst citizens in both recipient countries and Japan by ensuring the use of Japanese know-how and technology.

STEP loans may be offered as one of two loan options: Partner countries can either opt for a very concessional rate – usually 0.2% interest over 40 years with a 10-year grace period\* under tied terms, or an untied loan with slightly less concessional terms (varying from 0.3% to 1.2%, with 15-40 years maturity and 5-10 year grace periods). In effect, this acts as an incentive for partner countries to choose tied conditions.

In Kenya Japan has recently agreed a new loan to support the Mombasa Port Authority Project (Annex D). The Kenyan government opted for the more concessional but tied terms offered by a STEP loan. The Kenyan government hopes that Kenyan businesses will still benefit from the project through sub-contracting by Japanese contractors. Japan says that this project requires Japanese technology, therefore the loan is tied. However, a fair and robust international bidding procedure would make the appropriateness of the technology a central consideration. Given the size of the Mombasa port project it will change the composition of the Japanese programme in Kenya from one which was largely untied, to one which will be mainly tied.

Other recent projects funded through the STEP scheme include the Jakarta Mass Rapid Transport Project (Indonesia), the new Ulaanbaatar International Airport construction project (Mongolia) and the Dedicated Freight Corridor project (Nehru, India). For the project in India, Japan used a tied STEP loan even though the project was deemed commercially viable by the OECD, thus contravening the OECD Arrangement on Officially Supported Export Credit (OECD, 2009I).

\*STEP terms and conditions are subject to variation; these figures were correct in January 2010.

### Future considerations

- Japan can build on its existing engagement in aid co-ordination mechanisms by increasing its voice further and engaging in policy dialogue with partners, including on governance issues, and particularly within those sectors where it has the greatest engagement and experience.
- Japan should apply more systematically its successful approach to co-ordinating and aligning projects within partner-led programmes, *i.e.* situate more of its projects within partner programmes and consider using pooled funds where appropriate. It should also increase the proportion of its aid which is provided on partners' national budgets and share indicative funding figures for future years.
- Japan is encouraged to build on and share experience of triangular co-operation through existing international forums.
- To consolidate its progress in untying its aid, Japan should:
  - report the tying status of all its ODA, including technical co-operation

- elaborate a plan on how it will “further untie” its ODA, beyond the areas covered in the 2001 Recommendation, to reflect the intention of the call to “further untie” in the Accra Agenda for Action; and
- ensure its procurement guidelines make clear whether the primary contractors which have to be Japanese may act as agents only or also as managers or suppliers and, where the latter, report such aid as tied.



## Chapter 6

### Special issues

#### Capacity development

##### *Policies and principles*

Japan's ODA Charter contains an explicit commitment to capacity development (GoJ, 2003). It sets out clearly that supporting the “self-help” efforts of partner countries to become self-reliant is the most important objective of Japanese development co-operation and this approach is firmly based on partner ownership. Capacity development is thus a central tenet of Japanese development co-operation. Japan defines capacity development as “the ongoing process of enhancing the problem-solving abilities of developing countries by taking into account all the factors at the individual, organisational, and societal levels” (JICA, 2006c). It takes a multilayered approach to promoting partner country capacity and emphasises the importance of contextual analysis and focusing on whole systems. This understanding is broadly in line with the definition in the 2006 DAC good practice document (OECD, 2006c).

Japan recognises that capacity is critical for sustainable development and national ownership and that building it is primarily a partner country responsibility. Therefore it attaches great importance to proactive and endogenous efforts by the partner countries “to solve development problems on their own” and maintain capacity over time. The conventional way in which Japan seeks to do this is through deploying Japanese experts and volunteers and field-level engagements. In principle, Japanese experts are not deployed to “fill the gap.” Instead they are expected to act as facilitators or catalysts, imparting knowledge and good practice that will support partner country capacity to respond to their people's needs effectively and deliver public services in key sectors and thematic areas.

In principle, JICA is mindful that knowledge is not something that can be simply transferred from one country to another. It stresses supporting capacity so that knowledge is acquired and internalised effectively by partner countries. This reflects Japan's own experience of modernisation through importing, adapting and internalising the knowledge of the advanced nations. This distinctively Japanese approach favours a more “bottom-up” and “learning-by-doing” approach for gradual policy and institutional development. The objective is to create incentives for state institutions to improve their core public functions. JICA is also seeking to strengthen its capacity development approach further by better integrating the three aid schemes: technical co-operation, grant aid, loans. This is an ongoing challenge.

### ***Tools and operational guidance***

Support for capacity development by JICA's top management appears to be strong and it is one of JICA's Mid-Term Objectives (JICA, 2003b). Furthermore, JICA has produced a variety of tools, guidelines and operational manuals to guide the design and implementation of interventions and to build a shared understanding of capacity among all JICA staff. The *Capacity Development Handbook for JICA Staff* provides a framework to assess and improve the management of technical co-operation projects from a capacity development perspective (JICA, 2004c). It provides some policy guidance on mainstreaming capacity development in all technical co-operation projects and formulating explicit capacity-related targets at the organisation and/or institution levels.

There are also several operational guiding tools that deal with capacity. These include the *Project Management Handbook* and the *Capacity Assessment Handbook* (JICA, 2007c; 2008c). These handbooks are used by JICA staff during project design to ensure that capacity development is sufficiently integrated into projects and at country level through its Country Assistance Programmes (CAPs). JICA also offers training to its own staff and experts in capacity development theory and practice, as well as producing multimedia training materials.

### ***Sharing experiences with the wider development community***

Technical co-operation – *e.g.* dispatching experts, training, providing equipment and research – is Japan's primary means for supporting capacity development. However, partly as a response to the criticisms that emerged in the 1990s about the weak developmental effects of technical co-operation, JICA has made efforts to strengthen its knowledge management and its analytical capacity to assess and demonstrate the effectiveness of technical co-operation for building capacity. For example, in 2003 JICA carried out a comprehensive study to re-examine the effectiveness of its approach to capacity development (JICA, 2003a). The JICA Research Institute, which is responsible for developing corporate resources, has also commissioned a series of case studies examining impact of project interventions in various sectors (*e.g.* education, environment, governance). These and other relevant sectoral and thematic studies are posted on its dedicated web-based "JICA knowledge site" (available in Japanese only). However, as with other donors, addressing capacity development in a comprehensive manner and demonstrating its impact remain challenges for Japan.

Japan has also participated in joint initiatives. In 2008, it played an active part in executing a joint donor-partner country study that looked at ways to make technical co-operation work better for capacity development (JICA, 2008d). The findings and recommendations of this joint study were also reflected in JICA's Capacity Assessment Handbook (JICA, 2008c). The review team encourages Japan to monitor and report progress on improving technical co-operation as part of its overall effort towards enhancing capacity-development support, which includes Japan's action plan for implementing the Paris Declaration and the Accra Agenda (GoJ, 2005b). Japan would also benefit from sharing experiences with other DAC donors currently undertaking technical co-operation reform, such as the European Commission and Australia.

In addition, JICA is increasingly sharing its capacity development experience and good practice within the wider development community, by publishing its own analytical work and contributing to international dialogue. It is also actively engaged in key international initiatives such as the CD Alliance, the Learning Network for Capacity

Development (LenCD) and the Capacity Development for Development Effectiveness (CDDE) Facility. For example, a senior JICA official is currently a member of the CD Alliance Core Group and is also a “capacity development facilitator” in the Executive Committee of the DAC Working Party on Aid Effectiveness. Japan has also jointly organised two international conferences on capacity development – one on aid effectiveness, held in Manila in 2003 and the other on the role of external partners as catalysts for change, held in Tokyo in 2004. Most recently Japan co-hosted a CDDE meeting in Manila in 2009.

### *Capacity development in practice*

As the country’s main implementing agency of technical co-operation, JICA plays a key role in capacity development within the Japanese development co-operation system, notably through its activities in the areas of human resource development and institution building. Although JICA’s technical co-operation focuses on individual skills and knowledge transfer, emphasis is placed on building and strengthening public-sector capacity and functions, including country systems, through a multilayered approach to capacity development, i.e. individual, organisational and institutional capacities. JICA also has smaller capacity-development programmes involving universities, business associations, and NGOs. Moreover, during the preparatory study phase, JICA assesses capacity at the programme level and tries to formulate projects using the most appropriate mix of modalities – grants, loans, technical co-operation and volunteers – to ensure comprehensive capacity development.

It is difficult to estimate precisely Japan’s financial contribution to capacity development because it does not earmark specific resources for this purpose. As a proxy measure, technical co-operation constitutes around 11% of gross Japanese ODA on average, amounting to USD 1.7 billion in 2008. Japan provides technical co-operation in a wide range of sectors and thematic areas, such as education, health, agriculture, rural development, private sector development, environment, governance and peacebuilding.<sup>16</sup> For example, Japan has been very active in building disaster prevention and management capacity (Box 9). Japan places a high value on quality data, and so provides support to the statistical capacity building of national statistical offices in over 70 partner countries, generally in the form of technical assistance (experts and training) and grant aid (OECD, 2008d). Japan has supported the work of the PARIS21 in the past, an international partnership to build the statistical capacity of developing countries, but has not participated in its activities in recent years. Given its extensive experience in this area, Japan is encouraged to strengthen its engagement with this global initiative and ensure its statistical capacity activities are well co-ordinated with others in-country. This would not only benefit others, but would also improve results through harmonising approaches.

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16. For further information, see: [www.jica.go.jp/project/english/index.html](http://www.jica.go.jp/project/english/index.html).

### **Box 9. Disaster risk reduction and capacity development**

Japan is at the forefront of global and regional efforts on disaster risk reduction and management, drawing greatly on its own knowledge and experience. Capacity development is an integral component of its disaster reduction activities. Japan's assistance in this area has largely focused on Asia, but it is looking to increase support to other disaster-prone regions in Africa. At the 2005 Asia-Africa Summit, for example, Japan pledged to provide more than USD 2.5 billion in aid for disaster prevention sectors in Asia, Africa and other regions over a five-year period.

JICA provides both "hard" (e.g. cyclone shelters) and "soft" infrastructure support (e.g. flood forecasting and warning services) and builds partner country capacity to assess risks and prevent disasters. JICA offers training on disaster prevention and management to partner country government officials, community groups and NGOs. It also gives regional-level training, often jointly with other organisations such as the Asian Disaster Reduction and Response Network. Overall, Japan's ODA commitments for disaster risk reduction amounted to approximately USD 550 million in FY2008 (MoFA data). Japan also made financial contributions of USD 6 million in 2007/08 to the Global Facility for Disaster Reduction and Recovery, a multi-donor programme managed by the World Bank to support the implementation of the Hyogo Framework for Action 2005-2015 in low and middle-income countries.

Evaluation capacity development is another area where Japan has played an active role, both in the DAC Evaluation Network and on its own. For example, Japan led the 2006 DAC fact-finding survey on evaluation capacity development in partner countries, which helped obtain a better picture of donor support to partner country evaluation capacities. JICA's Evaluation Department works with partner country governments (e.g. planning ministries) in planning and guiding the country evaluation capacity development processes. It has signed memoranda of understanding with the governments of Indonesia, Philippines and Viet Nam to co-operate in evaluation capacity. JICA provides training in evaluation system and techniques for partner governments, including annual ODA loan evaluation seminars.

JICA sees itself as a facilitator and is gradually moving from a traditional focus on providing project-related training towards "enhancing the endogenous problem-solving abilities" of partner countries from a holistic view, using technical co-operation to link the capacity-development process taking place at the individual, organisational, and institutional/societal levels. The role of technical co-operation is therefore seen as a means to assist the country's endogenous capacity-development process. In both Bangladesh and Kenya, this holistic approach was evident in some projects (Box 10). Japan should ensure holistic approaches are more systematically applied throughout its development co-operation.

Japan has a clear view of why building capacity is a priority. But, as with many other DAC members, it still has some way to go to systematically address capacity-related challenges in a comprehensive manner in practice. The review team felt that in some cases JICA's approach still appeared concerned with developing capacity to implement its technical co-operation projects, without tackling key systemic issues, such as politics and individual incentives, which can undermine or influence capacity development. Japan should seek to improve the practical application of its capacity concept and close the gaps between policy and practice, while at the same time aligning its support with partners' capacity priorities.

### **Box 10. Strengthening mathematics and science in secondary education in Kenya**

The “Strengthening of Mathematics and Science in Secondary Education” project (SMASSE) was implemented in Kenya between 1998 and 2008 with the help of JICA. It sought to enhance the teaching quality of maths and science teachers in secondary schools through a training programme called In-Service Training (INSET). The INSET programme was based on a two-tier “cascade system” whereby school principals and senior-level teachers were first trained at the national level (training of trainers) who would then return to schools in their respective districts to train their fellow teachers. This system allowed the diffusion of training effects to cascade down from the national to the district levels.

The sustainability of the programme was ensured through earmarking a part of school fees to cover the costs of district-level training. To effectively improve the quality of training and INSET management, Kenyan teachers were also offered training opportunities in Japan, Philippines and Malaysia, where the INSET model had already been adopted. Initially launched as a pilot project targeting nine districts, the Kenyan Ministry of Education decided to make it a nation-wide policy by integrating INSET into the national system, thus assuring annual financing and requiring teacher and local educational authority participation.

When meeting with the peer review team (Annex D), the Kenyan Ministry of Education highlighted the following key success factors for SMASSE: (i) identification of appropriate targets; (ii) local ownership; (iii) strong political support; (iv) integration into the national system; and (v) effective leadership by the programme beneficiaries. Moreover, SMASSE’s success is also being shared among other Africa countries. Kenya’s national training centre has been used to offer INSET training to maths and science teachers from a growing number of African countries (intra-regional South-South co-operation).

*Source:* JICA (2007d), *Strengthening of Mathematics and Science in Secondary Education (SMASSE) Project in Kenya: Analysis from a Capacity Development Perspective*, Institute for International Co-operation, JICA, Tokyo.

### ***Support to capacity development after Accra***

At the Accra High Level Forum on Aid Effectiveness, the donor community committed to implement the capacity development priorities in the Accra Agenda for Action, including: (i) enabling local civil society and the private sector to play their role; (ii) ensuring proper integration of capacity development priorities in key national, sub-national, sector and thematic strategies; (iii) working towards demand-driven technical co-operation, including through South-South arrangements; (iv) addressing the systemic impediments to (or enabling environment for) developing local capacity; (v) assessing, strengthening and promoting the use of country systems; and (vi) tailoring, phasing and co-ordinating actions to develop capacity in situations of fragility.

Some of these priorities are already covered in Japan’s policy and guidelines, namely priority areas (ii), (iii) and (v). For example, Japan is at the forefront of donor South-South and triangular co-operation efforts, actively promoting the capacity of partner countries (Chapter 5). Its strong focus on South-South arrangements is clearly reflected in the ODA Charter, the Medium Term Policy and JICA’s Mid-term Plan. Through supporting South-South co-operation, Japan is able to better integrate the perspectives of its Southern partners, which in turn helps to enhance its own approach to capacity development. The review team encourages Japan to continue playing an active role in this area, including sharing good practice and lessons to help further improve its effectiveness.

Japan's involvement in the other priority areas appears to be less well developed. For example:

- Japan has worked to strengthen its partnerships with Japanese NGOs, and to a lesser extent partner country NGOs, at various levels but MoFA provides only a small amount of financial support for developing Japanese NGOs' own capacity (JPY 244 million or USD 2.37 in FY2008 and JPY 235 million in FY2009 or USD 2.8 million). Funds for overheads are also not available through Japan's NGO funding schemes. Several institutions in Japan regularly offer seminars and training courses for NGOs (*e.g.* the Foundation for Advanced Studies on International Development and the Japan NGO Centre for International Co-operation). Japan should do more to support the capacities of partner country NGOs, both as development partners and service providers, and make them an important part of Japan's capacity-development strategy. To this end, Japan could usefully share country-level good practice in this area within the donor community.
- Japan's approach is still largely associated with technical co-operation, focusing on mainstreaming capacity components into projects (*e.g.* knowledge transfer, technical skills, organisational procedures). At the moment, given the "tailor-made" nature of Japanese technical co-operation, the extent of mainstreaming is for the most part left to individual project managers' discretion and thus varies widely between projects. There is a need for a clear operational framework defining how the capacity agenda fits into Japan's overall development co-operation approach, especially for creating an enabling environment, and how the practicalities of developing capacity can be tackled in a structured and coherent manner. In particular, Japan should consider the operational entry points offered by the Accra Agenda for Action outlined above.
- Through its increasing involvement in fragile and conflict-affected states (Chapter 1), Japan is gaining confidence in supporting state-building and capacity development processes. Japan should take stock of its own experience and accumulated knowledge in this area to formulate an explicit approach to addressing the challenges of developing capacity in fragile situations. Moreover, in order to provide the appropriately-sequenced, tailored and co-ordinated capacity development of core state functions, Japan should work closely with other DAC members to improve its overall support to the priority capacity areas identified in the Accra Agenda for Action.

#### ***Future considerations: capacity development***

- Japan should apply clear operational guidelines to help staff to: (i) take a holistic or system wide approach to supporting sustainable capacity development in practice; (ii) work with other donors (*e.g.* carry out joint analytical work or evaluations); and (iii) better integrate the capacity priorities and challenges identified by partner countries.
- Japan is encouraged to complement its strong role in supporting the capacity development of partner governments by looking at (i) how its approach can be modified for capacity development in fragile states; and (ii) how it can support the capacity development of local NGOs, and civil society more broadly, including the private sector.

## Environment and climate change

### *Japan's policies*

Japan has long experience in working on a range of environmental issues. Its policies on international environmental co-operation reflect its own experience of tackling industrial pollution, as well as of adapting its domestic policies to international best practice. The government sees tackling global environmental issues as one of its top priorities. For instance, its Third Basic Environment Plan, approved by Cabinet in 2006, includes strengthening Japan's international strategic efforts as one of its six major aims. Furthermore, in 2007, the government announced the country's international environmental strategy: *Becoming a Leading Environmental Nation in the 21st Century: Japan's Strategy for a Sustainable Society* (GoJ, 2007). This strategy paper includes specific priority actions for climate change, biodiversity, sustainable resource use, industrial pollution, and economic development using clean technologies. Its overarching goal is to establish a "Japanese model" for a sustainable society and to contribute towards the development and prosperity of Asia and the world.

Japan's strong commitment to enhancing environmental co-operation is also anchored in its ODA Charter, which emphasises the importance of sustainable development and environmental conservation as a global task. It also states that "[e]nvironmental conservation and development should be pursued in tandem" (GoJ, 2003). Furthermore, the Medium Term Policy explicitly lists environmental issues such as actions against global warming (both mitigation and adaptation), pollution control (in air and water), waste management, and environmental conservation, as high priorities (GoJ, 2005a). Japan is also scheduled to host the Tenth Meeting of the Conference of the Parties to the Convention on Biological Diversity (CBD-COP 10) in October 2010, where it hopes to promote the adoption of its proposed "post-2010 biodiversity targets". These include a sub-target on development objectives to "establish mechanism to ensure harmonised approaches between ecosystem conservation and other human activities such as development and poverty alleviation."<sup>17</sup> Japan is encouraged to ensure the environment remains a priority and well-funded area over the coming years.

### *Institutional responsibilities*

While MoFA is responsible for the overall co-ordination and formulation of ODA policies, the Global Environment Bureau within the Ministry of the Environment is responsible for leading activities within the framework of Japan's international environmental agenda. MoFA has increased staff capacity of its Climate Change Division which co-ordinates with other relevant divisions within the ministry (*e.g.* the Development Assistance Policy Co-ordination Division responsible for developing the Cool Earth Partnership, see Box 11), as well as with other relevant ministries with respect to climate change issues.

JICA's Global Environment Department, established in 2004, implements the agency's environment-related co-operation activities. This is designed to enable JICA to address environmental issues, including cross-sectoral ones, in a unified manner. The department is organised around four thematic areas (natural environment conservation,

17 . See Sub-target B in [www.MoFA.go.jp/MoFAj/press/release/22/1/PDF/010703.pdf](http://www.MoFA.go.jp/MoFAj/press/release/22/1/PDF/010703.pdf).

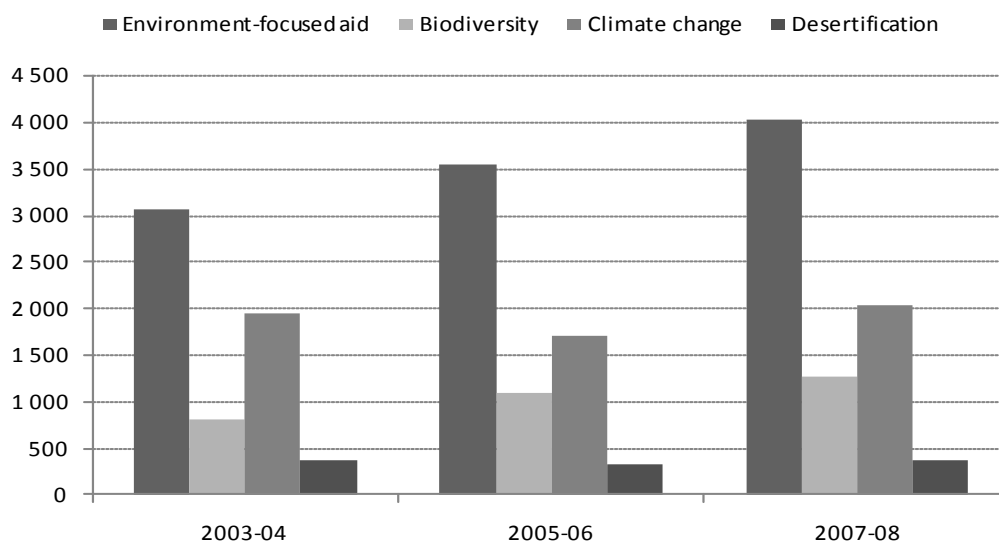
environmental management, water resources, and disaster management). Within each area there are two regional divisions. There is also a division responsible for the overall strategic planning and co-ordination of the department’s work. The two Environmental and Social Considerations Review Divisions within the Credit Risk Analysis and Environmental Review Department are responsible for environment impact assessment (EIA), including the ongoing revision of JICA’s Guidelines for Environmental and Social Considerations. The reorganisation of JICA following the merger with JBIC was designed to strengthen JICA’s climate change focus. JICA also established an Office for Climate Change in 2008.

### *Aid for the environment*

Overall, Japan’s ODA (on a commitment-basis) to “aid in support of the environment” has been growing over the years (Figure 9). In 2008, Japan’s total environment-focused aid increased by 6.5% compared to 2007, amounting to about USD 4.2 billion, most of which was in the form of loans (Table 6).<sup>18</sup> This volume is likely to rise significantly in the coming years in light of the Cool Earth Partnership and then the Hatoyama Initiative (Box 11).

**Figure 8. Japan’s bilateral aid to the environment and the three Rio Conventions, 2003-2008**

Average commitments, sector-allocable ODA, USD million, constant 2007 prices



Source: OECD CRS

**Table 6. Total environment-focused bilateral aid, 2003-2008**

Commitments, sector-allocable ODA, USD million, constant 2007 prices

	2003	2004	2005	2006	2007	2008
Environment as a sector	106	231	322	244	459	452

18. These activities do not necessarily target the environment in their entirety. For definition, see OECD 2009i.



Other activities targeting environment as "principal" objective <sup>a</sup>	1 738	534	2 103	1 448	2 432	2 084
Activities targeting environment as "significant" objective <sup>b</sup>	1 427	2 093	1 813	1 167	1 007	1 616
Total	3 271	2 858	4 238	2 858	3 898	4 151
Of which: bilateral grants	6.5%	13.4%	6.8%	7.0%	6.1%	8.0%
bilateral loans	93.5%	86.6%	93.2%	93.0%	93.9%	92.0%

- a) Principal means environment was an explicit objective of the activity and fundamental in its design.  
b) Significant means environment was an important, but secondary, objective of the activity.

Source: OECD CRS

In terms of sector distribution, other social infrastructure and economic infrastructure accounted for 70% of the total share of Japanese aid with environmental objectives (OECD, 2009i). India and China were the largest beneficiaries of Japan's environmental-focused aid, accounting for 68% of aid received in 2006/07 for both countries (OECD, 2009i). However, Japan's spending within the environment sector itself was much lower, at USD 452 million in 2008. Japan ratified the three UN Rio Conventions (on climate change and biodiversity in 1993 and desertification in 1998). According to Japan's reporting against the Rio markers,<sup>19</sup> aid targeting the objectives of the Rio Conventions on biodiversity, climate change, and desertification directly or indirectly represented, respectively, 9.5%, 11.3% and 2.5% of Japan's bilateral ODA commitments between 2005 and 2007 (Figure 9; OECD, 2009j).

### ***Strong leadership in tackling climate change***

Japan, the world's sixth-largest emitter of greenhouse gases, is politically committed to a low-carbon future. There is high-level commitment to playing an active role in addressing environment and climate change issues at the global level. For example, in the run up to the 2008 Hokkaido-Toyako G8 Summit, Japan unveiled the Cool Earth Promotion Programme which, among other things, included the USD 10 billion "Cool Earth Partnership" initiative (Box 11). In addition to this, Japan pledged to contribute USD 1.2 billion towards the Climate Investment Fund (CIF), a multi-donor trust fund managed by the World Bank.

Despite the change of government in September 2009, climate change remains a top priority. At the September UN Climate Change Summit, the new Prime Minister Hatoyama unveiled Japan's medium-term target of reducing greenhouse gas emissions by 25% by 2020 from 1990 levels. This target was again announced at the 15th Session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP 15) in December 2009, though contingent on "the establishment of a fair and effective international framework in which all major economies participate and on agreement by those economies on ambitious targets."<sup>20</sup> This target is far more ambitious than the equivalent 15% cut (from 2005 levels) unveiled by the previous government and places Japan among countries committed to aggressive greenhouse gas emissions cuts.

19. The developed countries that signed the three Rio Conventions in 1992 committed themselves to assist developing countries in the implementation of these conventions. Since 1998, the DAC has monitored aid targeting the objectives of the Rio Conventions through its Creditor Reporting System (CRS) and the so-called "Rio markers" (OECD, 2009j).

20. Japan's emissions target for 2020: [www.MoFA.go.jp/announce/announce/2010/1/PDF/012601e.pdf](http://www.MoFA.go.jp/announce/announce/2010/1/PDF/012601e.pdf).

### Box 11. Progress of Japan's Cool Earth Partnership between 2008 and 2009

The Cool Earth Partnership fund will cost Japan JPY 1.25 trillion (USD 10 billion) in financial and technical assistance over a period of five years starting from 2008. It aims to support developing countries to reduce emissions (mitigation) and also assists countries suffering from severe adverse impacts from climate change (adaptation). Of the USD 10 billion committed, a total of USD 2 billion will be allocated to support adaptation measures and for access to clean energy (through grant aid, technical co-operation, and multilateral contributions). The remaining USD 8 billion will be allocated to mitigation measures (USD 4 billion in Cool Earth ODA loans, and USD 4 billion in other official flows and private funds). The initiative is implemented through a whole-of-government approach, building on Japan's experience, expertise and technology.

Between 2008 and (October) 2009, Japan established the Cool Earth Partnerships with 93 countries and regions, including 35 LDCs, and disbursed JPY 217.5 billion (JPY 104.5 billion as ODA and JPY 113 billion as other official flows). This represented 17.4% of the total amount committed. METI and MoFA were responsible for allocating most of those Cool Earth funds, accounting for 47.3% (JPY 102.9 billion in as other official flows and ODA) and 45.5% (JPY 99 billion in ODA) respectively. The rest was provided by MoF, MAFF and MOE. With the change in government, the Cool Earth Partnership was replaced by the new Hatoyama Initiative (involving a total of JPY 1.75 trillion or approx. USD 15 billion over three years). According to MoFA, the unmet JPY 1 trillion pledge of the Cool Earth Partnership will be entirely shifted to the 1.75 trillion Hatoyama Initiative.

The new government has replaced the Cool Earth Partnership with the Hatoyama Initiative which features both short-term (up to 2012) and long-term (until 2020) financing mechanisms. For the short-term financing, Japan will now provide USD 11 billion in public finance (comprised of 7.2 billion in ODA and 3.8 billion in other official flows) and another USD 4 billion in private finance (up to 2012) to support developing countries' efforts to address climate change problems. Through this mechanism, the government aims to, *inter alia*: (i) contribute to the economy-wide emission reductions (including through the reduced emissions from deforestation in developing countries (REDD plus) mechanism); (ii) facilitate smooth transition to the new post-2012 framework; and (iii) promote active participation of developing countries in the new regime.

Japan's strong commitment to climate and development as demonstrated through these large-scale initiatives, is welcome and will help advance the implementation of the development aspects of the Copenhagen Accord.<sup>21</sup> The Hatoyama Initiative also provides good opportunities to realise synergies among grants, loans and technical co-operation (Chapter 4). Nevertheless, there are a number of areas that require further clarification and transparency, including how the money will be spent, the degree of additionality (i.e. new aid money), and whether the funds will be allocated through country systems. Given the large volumes involved, caution is needed to ensure the initiative does not divert funds from other priorities and that it is co-ordinated with other climate finance mechanisms in the countries concerned. Moreover, the government's emphasis on the use of Japanese technology and expertise through public-private partnerships – *i.e.* tied aid (see Box 8) – may threaten Japan's untying progress (Chapter 5).

21. At the COP-15 meeting, the international community agreed “[s]caled up, new and additional, predictable and adequate funding as well as improved access shall be provided to developing countries.”

Japan plans to achieve its emission reduction obligation partly by using the Kyoto mechanisms, particularly the Clean Development Mechanism (CDM), Joint Implementation (JI) and emissions trading. CDM generates credits from projects that reduce emissions in developing countries. Japan is one of the world's largest buyers of CDM credits and in recent years has made efforts to promote the mechanism in developing countries by using aid. For example, Japan's loan project for constructing a wind-power plant in Egypt was approved by the UN CDM Executive Board in 2007, Japan's first development assistance project to qualify under the CDM (OECD, 2009f). Japan is also increasingly using the "co-benefit" approach to CDM (*i.e.* achieving economic gains from addressing climate change/air pollution whilst simultaneously benefiting the development process of the host country) as a base to promote anti-pollution measures in developing countries (*e.g.* Bangladesh). Japan should be commended for its co-benefit approach; continued emphasis of this approach could help harness development dividends of such projects.

### ***Mainstreaming and environmental impact assessment***

All JICA projects are systematically assessed for their economic and socio-environmental feasibility before approval. Appraisal results of projects at planning and pre-approval stages are made public on the JICA website, classifying projects into four categories (Categories A, B, C, and FI) according to their potential environmental (adverse) impact.<sup>22</sup> For Category A projects, the public is invited to submit their comments within 30 days after the release of project information.<sup>23</sup> The screening process (environmental reviews) for Categories A and B projects seeks both "potential positive and negative environmental impacts" (JICA, 2009b), but it is not always clear how the identified opportunities and risks are followed up.

JICA has also put in place procedures to ensure compliance with its environmental guidelines. The Advisory Committee for Environmental and Social Considerations, composed of external experts, reviews and makes recommendations on the implementation of proposed high risk projects. In addition, two External Auditors appointed by the JICA President sit on the Examiners' Panel to investigate and resolve any individual queries submitted by external parties on "any co-operation project in which substantial damage has actually been incurred or is likely to be incurred in the future due to JICA's non-compliance with the Guidelines" (JICA, 2005b). The External Auditors directly report the outcomes of investigations to the President of JICA.

Clear guidance on environmental impact assessment (EIA) is in place, covering both environmental consideration (*kankyō-hairyo*) and environmental appraisal (*kankyō-hairyo-kakunin*). Following the merger, JICA consolidated the different guidelines used by JBIC and the former JICA into a single set of guidelines for environmental and social considerations. The new guidelines were approved by JICA in April 2010. The revision process, which lasted for 18 months, was led by an external expert committee whose members included academics, NGOs, private sector representatives and officials from key ministries (MOE, MoFA, MoF and METI). The public was also given the opportunity to comment on the draft guidelines. JICA is partially aligning its new

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22. Category A is the most significant and Category C the least (*i.e.* little adverse impact). FI is a category given to a project where the selection and the assessment of its sub-projects are undertaken only after JICA's approval of the funding and, thus, cannot be specified prior to the approval process.
23. See: [www.jica.go.jp/english/operations/social\\_environmental/archive/reviews/category\\_a.html](http://www.jica.go.jp/english/operations/social_environmental/archive/reviews/category_a.html).

guidelines with those of the World Bank and the Asian Development Bank. Furthermore, elements of strategic environmental assessment (SEA) appear to be partially integrated into the process, as JICA is mandated to apply SEAs when conducting “Master Plan Studies” (JICA, 2009b), but not to all policies, plans and programmes. The guidelines also do not provide clear guidance on ways to support the application of SEA at sector and national levels. Japan’s SEA would benefit from more detailed guidance and good practice manuals. To this end, the DAC guidelines for applying strategic environmental assessment could be a useful tool as Japan continues to develop its approach to SEA (OECD, 2006f).

Partner country governments are responsible for carrying out EIAs using their own systems/guidelines (if in place) and these EIAs must then be certified by national accreditation authorities. In some cases, this has resulted in delayed implementation or the suspension of loan disbursements due to inadequate capacity and weak accountability mechanisms due to non-compliance with social and environmental standards or failure to implement the necessary safeguard measures (*e.g.* compensation or resettlement of affected communities). However, the review team was informed by JICA that very few projects have been decommissioned, suspended, or stopped due to a negative EIA result. Given the relatively weak capacity of some partner country governments in environmental impact assessment, when necessary or requested, JICA provides technical support to ensure partner governments fully comply with the agency’s environmental guidelines and EIA reporting (JICA, 2009b). Japan considers this process to be crucial because the bulk of its aid goes to financing large-scale infrastructure development projects with potentially significant environmental impacts Japan should also strengthen its transparency and accountability mechanisms to ensure its partners act on environmental commitments to promote more accountable and effective aid delivery.

### ***Future considerations – Environment and climate change***

- While Japan is commended for launching large scale aid initiatives in support of environment and climate change, it should ensure that its activities are well co-ordinated with those of other donors and aligned with partner priorities and budgets, in order to maximise the benefits.
- Japan’s efforts to mainstreaming environmental issues could be improved by taking a more systematic approach to applying SEAs in the formulation and assessment of development policies, plans and programmes and ensuring the risks and opportunities identified in its environmental screening procedures are followed up.
- In line with the DAC Recommendation on Untying, Japan should avoid tying aid to Japanese environmental technology under the Cool Earth Partnership/the Hatoyama Initiative as it would threaten the progress made by Japan in untying aid and potentially reduce the value for money of its environmental support.

## Annex A

### Progress since the 2003 DAC Peer Review Recommendations

Key Issues	2003 recommendations	Achievements since 2003
<i>New developments and overall framework</i>	<ul style="list-style-type: none"> <li>• In implementing the ODA Charter, Japan should highlight that the primary objective of ODA is for the development of the recipient country, and should ensure that narrower national interests do not over-ride this objective.</li> <li>• Develop a government-wide approach to mainstream cross-cutting issues, rather than treating them as separate sectors, particularly concerning poverty reduction as part of achieving the MDGs.</li> </ul>	<ul style="list-style-type: none"> <li>• Japan sees development co-operation to be in its own interests in the long term. ODA is regarded as an important component of Japan's wider foreign policy in relation to its constitutional commitment to "the peace and development of the international community."</li> <li>• Japan has made good progress in mainstreaming some cross-cutting issues (notably gender), while for other issues – such as governance and fragility – there is still some way to go. The human security perspective has helped to add a poverty dimension to Japan's approach, though it has not always been able to integrate it into all projects.</li> </ul>
<i>Aid volume and allocations</i>	<ul style="list-style-type: none"> <li>• Make every effort to increase the ODA level as economic conditions improve, building broad-based public support to facilitate this.</li> <li>• Lessons learned from the provision of loans to indebted poor countries that resulted in large debt relief should be factored into future lending policies.</li> <li>• The development of a clearer policy on how Japan intends to focus on poor countries or poor populations within countries should be considered.</li> <li>• Strive to achieve a more balanced sector portfolio in line with new ODA Charter directions, by focusing more investment in basic health and education services to reduce poverty.</li> </ul>	<ul style="list-style-type: none"> <li>• 2008 was the first year in which Japanese aid increased since 2005. Japan has secured increases in ODA levels by using supplementary budgets and other off-budget resources. However, such an ad hoc approach seems unsustainable and impairs predictability. Public support for an increase in ODA has also improved.</li> <li>• Japan has become increasingly conscious of debt sustainability when deciding new loans. Decisions are informed by the IMF Article IV reports and the IDA's debt distress risk ratings. In principle, countries with arrears are not eligible for new loans. For example, Japan disbursed more grants (including technical co-operation) than loans in 2008.</li> <li>• Japan's approach is growth-orientated but increasingly includes a poverty dimension. Japan has increased its ODA to Africa and has committed to double ODA to Africa by 2012. The proportion of its net ODA going to least development countries has also increased in the last decade.</li> <li>• A large share of Japanese ODA is still allocated to economic infrastructure, but the proportion has decreased over time, narrowing the gap with aid to social sectors. Given its longstanding experience and knowledge, Japan's continued involvement in economic infrastructure, alongside its support to social sectors, is welcome.</li> </ul>

<i>Policy coherence</i>	<ul style="list-style-type: none"> <li>• Make a policy statement on coherence for development and seek ways to educate the public on this issue.</li> <li>• Enhance analytical capacity in policy coherence for development in order to improve its ability to take appropriate policy decisions.</li> <li>• Establish a system for monitoring the environmental, social and governance aspects of FDI and of regional economic co-operation agreements.</li> </ul>	<ul style="list-style-type: none"> <li>• Japan still has not made an explicit policy statement on policy coherence <i>for development</i>.</li> <li>• Some efforts have been made in certain sectors, e.g. trade and investment, but Japan's analytical capacity on PCD remains limited.</li> <li>• Japan adheres to the OECD Guidelines for Multinational Enterprises. Provisions for social and environmental considerations, and to discuss issues as necessary, are included in bilateral investment treaties and economic partnership agreements. JBIC, JETRO and the Nippon Export and Investment Insurance screen and monitor trade and investment projects against their respective environmental guidelines. Japan Business Federation annually monitors and reports CSR activities of its member companies.</li> </ul>
<i>Aid management and implementation</i>	<ul style="list-style-type: none"> <li>• Consider moving away from an instrument-based co-operation system to a more country-based approach, as well as establishing country budget envelopes; replicate more broadly the decentralisation pilot efforts, such as those in Viet Nam and Tanzania, with special emphasis on an effective use of a country-based, all-Japan team and strategy approach.</li> <li>• Consider delegating most grant management to JICA and focusing its energies on strategy, policy development and system co-ordination.</li> <li>• More development co-operation staff are needed across the system, particularly if decentralisation is to succeed. An integrated ODA personnel policy should be established that includes planning and analysis of development staff levels and skills.</li> <li>• Work with the DAC on identifying concrete measures to progressively untie the use of grant funds for primary contractors in the spirit of the Recommendation on untying ODA to the LDCs.</li> </ul>	<ul style="list-style-type: none"> <li>• Both MoFA and JICA are now structured on a regional basis, encouraging officials to look more holistically at Japan's ODA activities in each country.</li> <li>• Japan is building a more field-oriented system, rolling out CAPs and ODA task forces to facilitate a greater and well co-ordinated role for the field. Delegation of decision making authority to the field has not significantly increased.</li> <li>• JICA now manages and implements a large proportion of grant aid. However, MoFA still manages around 30% of grants. MoFA is also involved in planning and approval of JICA projects, though it has stepped back from some implementation roles.</li> <li>• In MoFA more people worked on ODA related issues in 2009 than in 2003. JICA staff numbers increased by a quarter but its budget has increased six-fold following the merger. Staff are placed in positions based on their skills and experience, particularly language. But there has not been a system-wide analysis of human resource capabilities and needs across the system or within key organisations.</li> <li>• Japan has increased the proportion of its aid which is untied. But around 13% of its ODA is also unreported. Japan uses Japanese primary contractors to manage implementation of its project grant aid. If the primary contractor is also a supplier, this aid should be reported as tied.</li> </ul>

## Annex B OECD/DAC Standard Suite of Tables

### Table B.1. Total financial flows

USD million at current prices and exchange rates

Japan	<i>Net disbursements</i>						
	1994-98	1999-2003	2004	2005	2006	2007	2008
<b>Total official flows</b>	<b>16 333</b>	<b>10 008</b>	<b>6 551</b>	<b>10 705</b>	<b>13 573</b>	<b>7 890</b>	<b>7 593</b>
Official development assistance	<b>11 433</b>	<b>10 736</b>	<b>8 922</b>	<b>13 126</b>	<b>11 136</b>	<b>7 679</b>	<b>9 579</b>
Bilateral	8 658	8 146	5 917	10 385	7 262	5 778	6 823
Multilateral	2 775	2 590	3 005	2 740	3 874	1 901	2 756
Other official flows	<b>4 900</b>	<b>- 728</b>	<b>-2 372</b>	<b>-2 421</b>	<b>2 438</b>	<b>211</b>	<b>-1 986</b>
Bilateral	3 910	- 355	-2 006	-1 423	2 732	- 229	-2 581
Multilateral	989	- 373	- 366	- 997	- 294	441	594
<b>Net Private Grants</b>	<b>217</b>	<b>244</b>	<b>425</b>	<b>255</b>	<b>315</b>	<b>446</b>	<b>452</b>
<b>Private flows at market terms</b>	<b>14 706</b>	<b>501</b>	<b>4 392</b>	<b>12 278</b>	<b>12 290</b>	<b>21 979</b>	<b>23 738</b>
Bilateral: <i>of which</i>	16 584	1 883	7 412	12 197	13 218	23 874	24 784
Direct investment	8 291	5 600	9 171	14 472	14 144	18 037	25 710
Export credits	110	- 190	1 667	-3 433	275	2 586	-4 878
Multilateral	-1 877	-1 382	-3 020	81	- 928	-1 896	-1 046
<b>Total flows</b>	<b>31 256</b>	<b>10 753</b>	<b>11 368</b>	<b>23 238</b>	<b>26 179</b>	<b>30 315</b>	<b>31 783</b>
<i>for reference:</i>							
ODA (at constant 2007 USD million)	9 487	9 826	7 947	12 055	10 918	7 679	8 502
ODA (as a % of GNI)	0.25	0.24	0.19	0.28	0.25	0.17	0.19
Total flows (as a % of GNI) (a)	0.68	0.24	0.24	0.50	0.58	0.67	0.63
<i>ODA to and channelled through NGOs</i>							
- In USD million	376	326	418	352	229	247	248
- In percentage of total net ODA	3	3	5	3	2	3	3
- Median DAC percentage of total net ODA	4	8	8	9	7	7	7

a. To countries eligible for ODA.

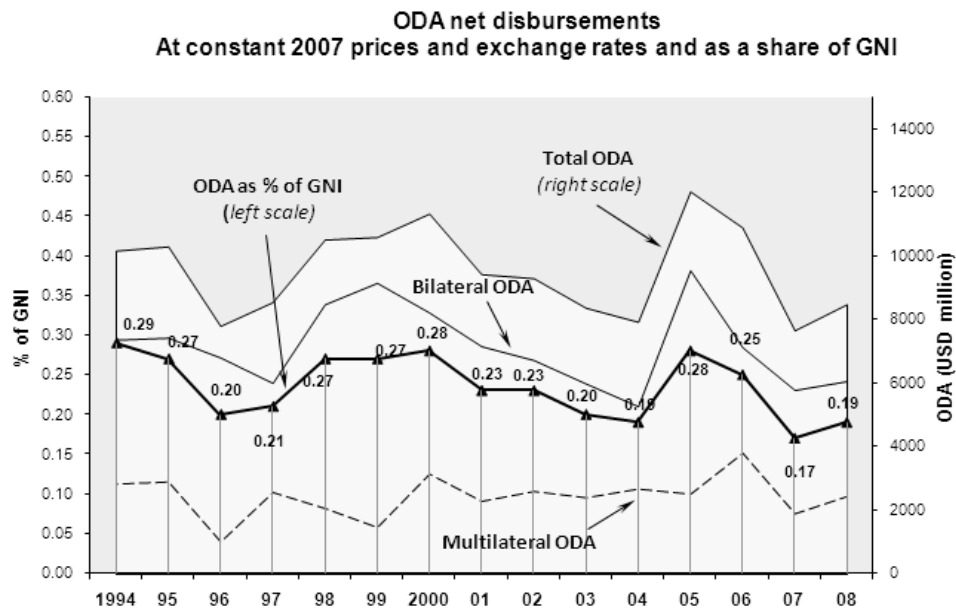
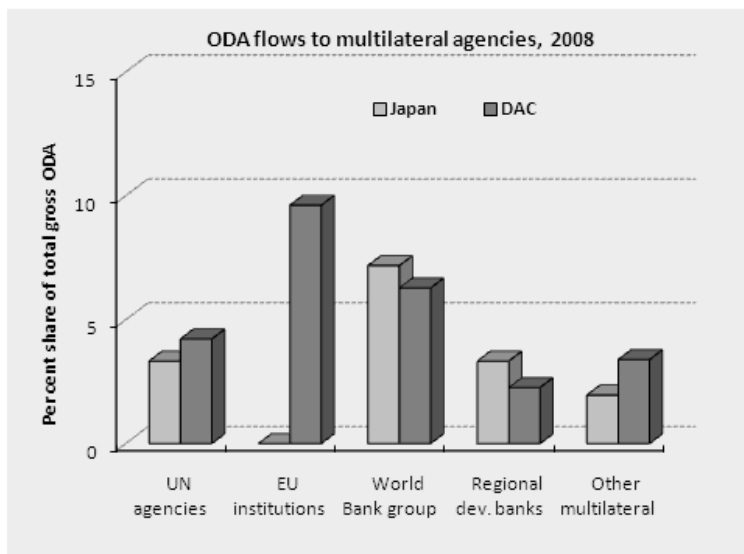


Table B.2. ODA by main categories

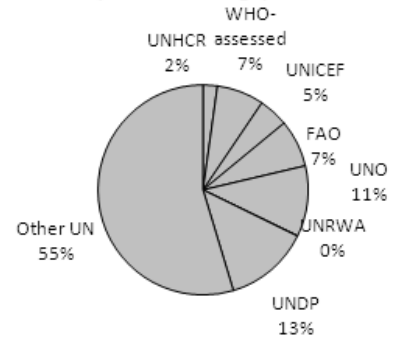
Japan	Constant 2007 USD million					Disbursements					Total DAC 2008%
						Per cent share of gross disbursements					
	2004	2005	2006	2007	2008	2004	2005	2006	2007	2008	
<b>Gross Bilateral ODA</b>	<b>11 730</b>	<b>14 583</b>	<b>12 932</b>	<b>11 665</b>	<b>13 045</b>	<b>81</b>	<b>85</b>	<b>77</b>	<b>86</b>	<b>84</b>	<b>74</b>
<i>Grants</i>	<i>6 351</i>	<i>8 425</i>	<i>7 501</i>	<i>5 983</i>	<i>6 891</i>	<i>44</i>	<i>49</i>	<i>45</i>	<i>44</i>	<i>44</i>	<i>65</i>
Project and programme aid	916	881	1 086	1 101	1 171	6	5	6	8	8	25
Technical co-operation	1 705	1 701	1 811	1 813	1 731	12	10	11	13	11	12
Developmental food aid	43	54	83	135	232	0	0	0	1	2	1
Humanitarian aid	585	484	179	95	228	4	3	1	1	1	7
Action relating to debt	2 149	4 386	3 475	1 941	2 486	15	26	21	14	16	8
Administrative costs	597	645	655	669	835	4	4	4	5	5	4
Other grants	356	275	212	229	207	2	2	1	2	1	8
<i>Non-grant bilateral ODA</i>	<i>5 380</i>	<i>6 158</i>	<i>5 431</i>	<i>5 683</i>	<i>6 154</i>	<i>37</i>	<i>36</i>	<i>32</i>	<i>42</i>	<i>40</i>	<i>9</i>
New development lending	5 283	5 293	5 219	5 657	6 151	37	31	31	42	40	8
Debt rescheduling	97	866	212	25	3	1	5	1	0	0	0
Acquisition of equity and other	-	-	-	-	-	-	-	-	-	-	1
<b>Gross Multilateral ODA</b>	<b>2 677</b>	<b>2 517</b>	<b>3 798</b>	<b>1 901</b>	<b>2 446</b>	<b>19</b>	<b>15</b>	<b>23</b>	<b>14</b>	<b>16</b>	<b>26</b>
UN agencies	1 122	999	576	567	516	8	6	3	4	3	4
EU institutions	-	-	-	-	-	-	-	-	-	-	10
World Bank group	922	824	2 525	173	1 112	6	5	15	1	7	6
Regional development banks (a)	401	447	445	460	515	3	3	3	3	3	2
Other multilateral	232	247	252	702	303	2	1	2	5	2	3
<b>Total gross ODA</b>	<b>14 407</b>	<b>17 100</b>	<b>16 730</b>	<b>13 566</b>	<b>15 491</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Repayments and debt cancellation</b>	<b>-6 460</b>	<b>-5 046</b>	<b>-5 812</b>	<b>-5 887</b>	<b>-6 989</b>						
<b>Total net ODA</b>	<b>7 947</b>	<b>12 055</b>	<b>10 918</b>	<b>7 679</b>	<b>8 502</b>						
<i>For reference:</i>											
<i>Associated financing (b)</i>	-	-	-	-	-						
<i>Net debt relief</i>	215	4 104	3 100	1 579	1 515						
<i>Imputed student cost</i>	-	-	-	-	-						
<i>Refugees in donor countries</i>	-	-	-	2	0						

a. Excluding EBRD.

b. ODA grants and loans in associated financing packages.



Contributions to UN Agencies (2007-08 Average)



Contributions to Regional Development Banks (2007-08 Average)

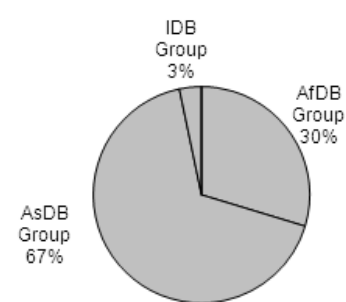
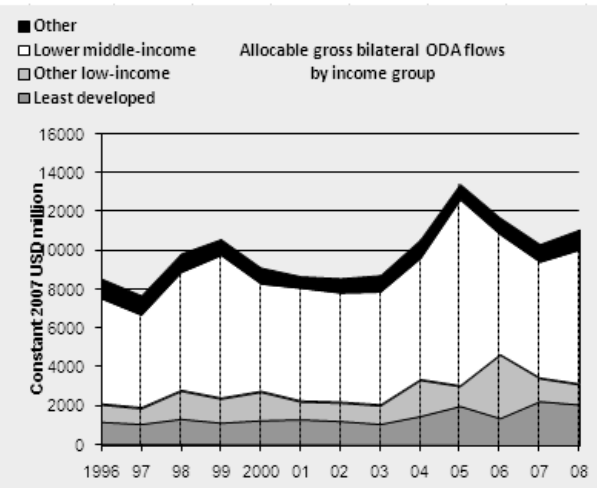
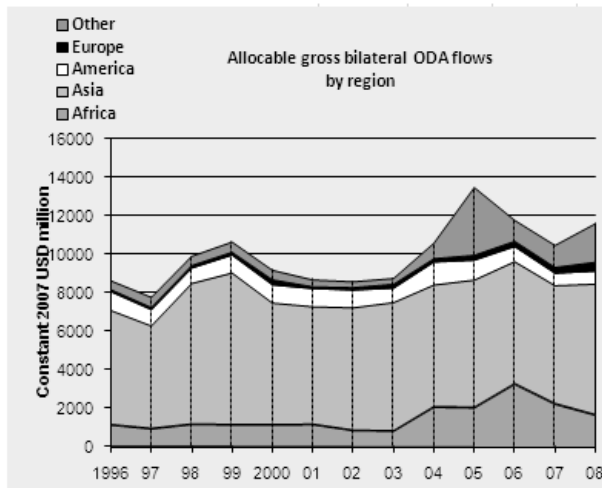




Table B.3. Bilateral ODA allocable by region and income group

Japan	Gross disbursements										Total DAC 2008%
	Constant 2007 USD million					Per cent share					
	2004	2005	2006	2007	2008	2004	2005	2006	2007	2008	
<b>Africa</b>	2 113	2 079	3 316	2 274	1 695	20	15	28	22	15	<b>38</b>
Sub-Saharan Africa	1 836	1 806	3 080	1 959	1 225	17	13	26	19	11	<b>32</b>
North Africa	275	269	223	301	368	3	2	2	3	3	<b>4</b>
<b>Asia</b>	6 336	6 622	6 329	6 144	6 798	60	49	54	59	58	<b>30</b>
South and Central Asia	1 861	1 412	1 809	1 648	2 836	18	10	15	16	24	<b>17</b>
Far East	4 452	5 175	4 473	4 471	3 922	42	38	38	43	34	<b>12</b>
<b>America</b>	1 195	1 038	800	645	682	11	8	7	6	6	<b>10</b>
North and Central America	322	621	382	230	250	3	5	3	2	2	<b>4</b>
South America	872	414	411	407	424	8	3	3	4	4	<b>4</b>
<b>Middle East</b>	748	3 380	982	1 041	1 836	7	25	8	10	16	<b>17</b>
<b>Oceania</b>	57	107	97	93	148	1	1	1	1	1	<b>2</b>
<b>Europe</b>	172	255	270	303	461	2	2	2	3	4	<b>4</b>
<b>Total bilateral allocable by region</b>	<b>10 623</b>	<b>13 481</b>	<b>11 793</b>	<b>10 500</b>	<b>11 620</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Least developed</b>	1 552	2 068	1 443	2 312	2 140	15	15	12	22	19	<b>35</b>
<b>Other low-income</b>	1 839	1 007	3 232	1 160	1 024	17	7	28	11	9	<b>10</b>
<b>Lower middle-income</b>	6 258	9 590	6 198	5 987	6 923	59	71	53	58	62	<b>46</b>
<b>Upper middle-income</b>	933	760	831	889	1 012	9	6	7	9	9	<b>10</b>
<b>More advanced developing countries</b>	6	5	5	4	-	0	0	0	0	-	<b>-</b>
<b>Total bilateral allocable by income</b>	<b>10 587</b>	<b>13 429</b>	<b>11 710</b>	<b>10 351</b>	<b>11 099</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<i>For reference:</i>											
<i>Total bilateral</i>	11 730	14 583	12 932	11 665	13 045	100	100	100	100	100	100
<i>of which: Unallocated by region</i>	1 108	1 102	1 138	1 166	1 425	9	8	9	10	11	19
<i>of which: Unallocated by income</i>	1 143	1 154	1 222	1 315	1 946	10	8	9	11	15	27



1. Each region includes regional amounts which cannot be allocated by sub-region. The sum of the sub-regional amounts may therefore fall short of the regional total.

Table B.4. Main recipients of bilateral ODA

Japan	1997-2001 average				Memo: DAC countries' median	2002-06 average				Memo: DAC countries' median	2007-08 average				Memo: DAC countries' median
	Current	Constant	Per cent	share		Current	Constant	Per cent	share		Current	Constant	Per cent	share	
	USD million	2007 USD mln				USD million	2007 USD mln				USD million	2007 USD mln			
Indonesia	1 292	1 174	11		China	1 445	1 363	12		Iraq	1 402	1 294	11		
China	1 224	1 121	11		Iraq	1 000	925	8		China	1 196	1 128	9		
Thailand	873	793	8		Indonesia	945	894	8		Indonesia	1 191	1 117	9		
India	764	700	7		Philippines	756	717	6		India	949	878	7		
Philippines	689	628	6		India	683	649	5		Viet Nam	780	735	6		
<b>Top 5 recipients</b>	<b>4 842</b>	<b>4 416</b>	<b>42</b>	<b>21</b>	<b>Top 5 recipients</b>	<b>4 830</b>	<b>4 548</b>	<b>39</b>	<b>29</b>	<b>Top 5 recipients</b>	<b>5 517</b>	<b>5 152</b>	<b>42</b>	<b>31</b>	
Viet Nam	544	489	5		Thailand	622	585	5		Philippines	599	572	5		
Bangladesh	324	296	3		Viet Nam	580	547	5		Bangladesh	540	490	4		
Pakistan	291	271	3		Nigeria	452	442	4		Tanzania	396	392	3		
Sri Lanka	239	219	2		Sri Lanka	300	283	2		Turkey	354	328	3		
Malaysia	237	218	2		Bangladesh	256	243	2		Sri Lanka	288	269	2		
<b>Top 10 recipients</b>	<b>6 476</b>	<b>5 907</b>	<b>57</b>	<b>33</b>	<b>Top 10 recipients</b>	<b>7 039</b>	<b>6 648</b>	<b>56</b>	<b>45</b>	<b>Top 10 recipients</b>	<b>7 693</b>	<b>7 204</b>	<b>58</b>	<b>44</b>	
Brazil	165	150	1		Malaysia	254	238	2		Malaysia	267	255	2		
Tanzania	150	137	1		Ghana	234	210	2		Afghanistan	155	143	1		
Peru	141	127	1		Pakistan	216	207	2		Peru	138	131	1		
Egypt	114	103	1		Zambia	182	169	1		Egypt	134	125	1		
Ghana	104	96	1		Bolivia	153	139	1		Morocco	133	125	1		
<b>Top 15 recipients</b>	<b>7 150</b>	<b>6 520</b>	<b>63</b>	<b>41</b>	<b>Top 15 recipients</b>	<b>8 077</b>	<b>7 612</b>	<b>65</b>	<b>53</b>	<b>Top 15 recipients</b>	<b>8 520</b>	<b>7 982</b>	<b>65</b>	<b>54</b>	
Syria	101	90	1		Peru	148	140	1		Thailand	128	121	1		
Laos	100	90	1		Honduras	148	139	1		Malawi	126	125	1		
Jordan	97	88	1		Brazil	139	131	1		Brazil	125	115	1		
Nepal	92	84	1		Turkey	133	126	1		Cambodia	116	110	1		
Mongolia	91	83	1		Cambodia	104	99	1		Nepal	112	104	1		
<b>Top 20 recipients</b>	<b>7 630</b>	<b>6 956</b>	<b>67</b>	<b>46</b>	<b>Top 20 recipients</b>	<b>8 749</b>	<b>8 247</b>	<b>70</b>	<b>58</b>	<b>Top 20 recipients</b>	<b>9 127</b>	<b>8 556</b>	<b>69</b>	<b>61</b>	
<b>Total (155 recipients)</b>	<b>10 105</b>	<b>9 214</b>	<b>88</b>		<b>Total (150 recipients)</b>	<b>11 259</b>	<b>10 618</b>	<b>90</b>		<b>Total (146 recipients)</b>	<b>11 428</b>	<b>10 725</b>	<b>87</b>		
Unallocated	1 315	1 194	12	38	Unallocated	1 202	1 137	10	22	Unallocated	1 753	1 630	13	21	
<b>Total bilateral gross</b>	<b>11 419</b>	<b>10 408</b>	<b>100</b>	<b>100</b>	<b>Total bilateral gross</b>	<b>12 461</b>	<b>11 755</b>	<b>100</b>	<b>100</b>	<b>Total bilateral gross</b>	<b>13 181</b>	<b>12 355</b>	<b>100</b>	<b>100</b>	

**Table B.5. Bilateral ODA by major purposes**  
at current prices and exchange rates

Japan	1997-2001 average		2002-06 average		2007-08 average		2007-08 Total DAC per cent
	Constant 2007 USD m	Per cent	Constant 2007 USD m	Per cent	Constant 2007 USD m	Per cent	
<b>Social infrastructure &amp; services</b>	<b>2 457</b>	<b>21</b>	<b>2 726</b>	<b>22</b>	<b>3 122</b>	<b>22</b>	<b>41</b>
Education	793	7	926	7	709	5	9
of which: basic education	66	1	133	1	110	1	2
Health	294	3	315	2	254	2	4
of which: basic health	81	1	100	1	168	1	3
Population & reproductive health	19	0	11	0	28	0	7
Water supply & sanitation	1108	10	1 035	8	1 705	12	5
Government & civil society	97	1	267	2	268	2	13
of which: Conflict, peace & security	-	-	15	0	48	0	3
Other social infrastructure & services	147	1	172	1	156	1	4
<b>Economic infrastructure &amp; services</b>	<b>4 455</b>	<b>38</b>	<b>3 477</b>	<b>27</b>	<b>4 427</b>	<b>32</b>	<b>15</b>
Transport & storage	2743	24	1 847	15	2 667	19	6
Communications	194	2	146	1	80	1	0
Energy	1447	12	1 443	11	1 428	10	4
Banking & financial services	13	0	22	0	36	0	3
Business & other services	58	1	19	0	216	2	2
<b>Production sectors</b>	<b>1 591</b>	<b>14</b>	<b>1 030</b>	<b>8</b>	<b>1 626</b>	<b>12</b>	<b>6</b>
Agriculture, forestry & fishing	1147	10	726	6	991	7	4
Industry, mining & construction	401	3	168	1	578	4	1
Trade & tourism	2	0	50	0	49	0	1
Other	19	0	86	1	8	0	0
<b>Multisector</b>	<b>587</b>	<b>5</b>	<b>418</b>	<b>3</b>	<b>742</b>	<b>5</b>	<b>6</b>
Commodity and programme aid	733	6	115	1	671	5	5
Action relating to debt	875	8	3 648	29	2 215	16	10
Humanitarian aid	132	1	325	3	256	2	8
Administrative costs of donors	684	6	649	5	752	5	5
Aid to NGOs (core support)	66	1	283	2	215	2	2
Refugees in donor countries	-	-	-	-	1	0	2
<b>Total bilateral allocable</b>	<b>11 580</b>	<b>100</b>	<b>12 671</b>	<b>100</b>	<b>14 027</b>	<b>100</b>	<b>100</b>
<i>For reference:</i>							
Total bilateral	12 276	84	12 908	85	14 428	88	75
of which: Unallocated	696	5	238	2	401	2	1
Total multilateral	2 298	16	2 289	15	1 896	12	25
<b>Total ODA</b>	<b>14 575</b>	<b>100</b>	<b>15 198</b>	<b>100</b>	<b>16 324</b>	<b>100</b>	<b>100</b>

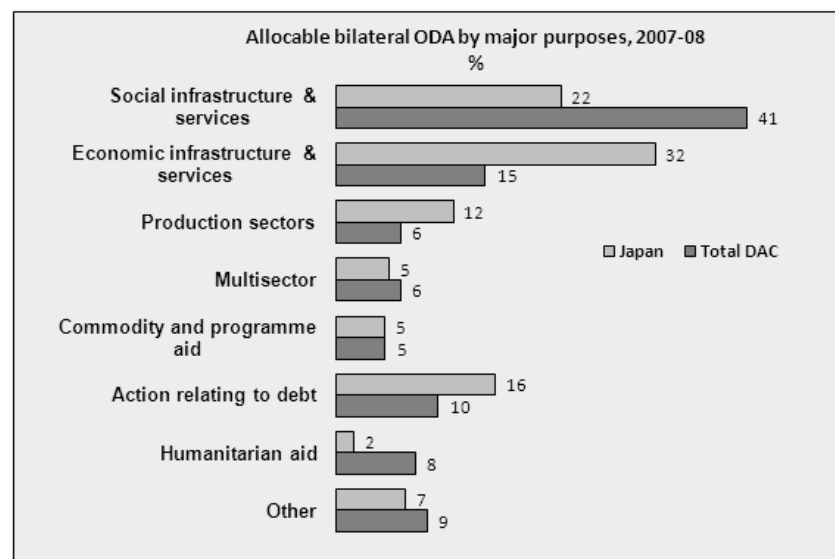


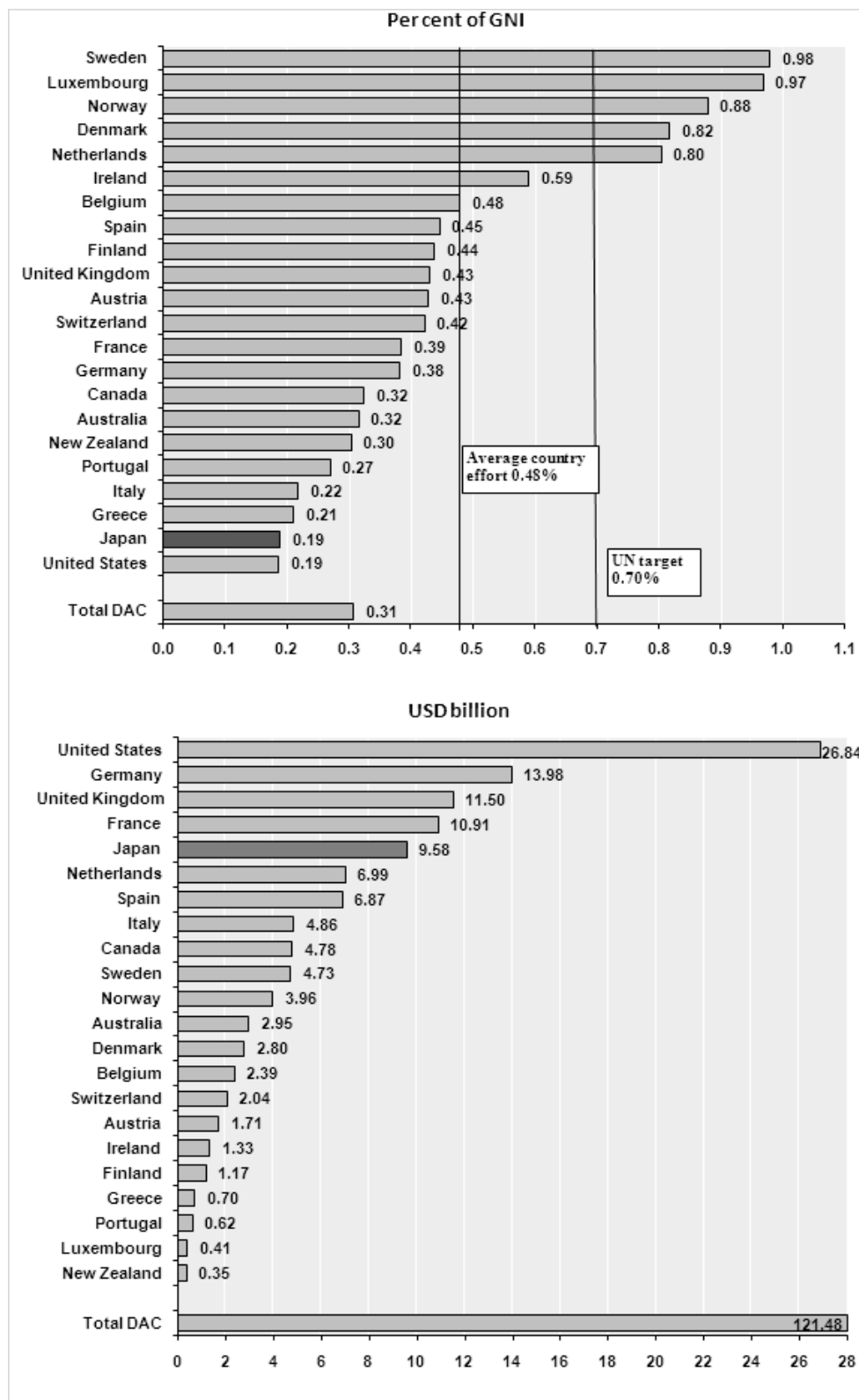
Table B.6. Comparative aid performance

	Official development assistance			Grant element of ODA (commitments) 2008 % (a)	Share of multilateral aid				ODA to LDCs Bilateral and through multilateral agencies 2008	
	2008		2002-03 to 07-08 Average annual % change in real terms		2008		2008		% of ODA	% of GNI
	USD million	% of GNI			% of ODA (b)	% of GNI (c)	% of ODA (b)	% of GNI (c)		
Australia	2 954	0.32	8.3	100.0	10.2	0.03			25.9	0.08
Austria	1 714	0.43	18.0	100.0	28.0	10.9	0.12	0.05	16.3	0.07
Belgium	2 386	0.48	-0.2	99.7	42.3	19.3	0.20	0.09	39.0	0.19
Canada	4 785	0.32	6.4	100.0	29.8		0.10		38.8	0.13
Denmark	2 803	0.82	0.7	100.0	34.8	25.1	0.28	0.21	39.1	0.32
Finland	1 166	0.44	7.7	100.0	40.5	22.4	0.18	0.10	34.3	0.15
France	10 908	0.39	1.7	90.0	40.8	17.6	0.16	0.07	28.0	0.11
Germany	13 981	0.38	8.7	92.1	35.2	15.1	0.13	0.06	25.9	0.10
Greece	703	0.21	3.4	100.0	55.6	21.6	0.12	0.05	20.5	0.04
Ireland	1 328	0.59	13.4	100.0	29.9	18.3	0.18	0.11	50.8	0.30
Italy	4 861	0.22	3.7	99.0	62.2	26.9	0.14	0.06	32.7	0.07
Japan	9 579	0.19	-1.8	85.3	28.8		0.05		26.1	0.05
Luxembourg	415	0.97	7.7	100.0	32.9	24.3	0.32	0.24	39.1	0.38
Netherlands	6 993	0.80	4.1	100.0	25.6	16.6	0.21	0.13	29.0	0.23
New Zealand	348	0.30	8.1	100.0	20.2		0.06		29.1	0.09
Norway	3 963	0.88	3.8	100.0	23.4		0.21		37.8	0.33
Portugal	620	0.27	1.6	79.2	39.8	13.8	0.11	0.04	36.2	0.10
Spain	6 867	0.45	14.6	94.3	30.1	15.0	0.13	0.07	21.3	0.10
Sweden	4 732	0.98	7.4	100.0	33.6	25.8	0.33	0.25	19.2	0.19
Switzerland	2 038	0.42	4.5	100.0	23.9		0.10		24.5	0.10
United Kingdom	11 500	0.43	6.8	100.0	35.9	18.3	0.16	0.08	36.5	0.16
United States	26 842	0.19	7.4	100.0	11.1		0.02		26.2	0.05
<b>Total DAC</b>	<b>121 483</b>	<b>0.31</b>	<b>5.6</b>	<b>96.0</b>	<b>28.8</b>	<b>18.1</b>	<b>0.09</b>	<b>0.06</b>	<b>28.8</b>	<b>0.09</b>
Memo: Average country effort		0.48								

## Notes:

- a. Excluding debt reorganisation.
- b. Including EU institutions.
- c. Excluding EU institutions.
- .. Data not available.

Graph B.1. Net ODA from DAC countries in 2008





## Annex C

### Japan and the Good Humanitarian Donorship Initiative

Japan endorsed the *Principles and Good Practices of Humanitarian Donorship* at the inaugural Good Humanitarian Donorship (GHD) Conference in Stockholm in 2003.<sup>24</sup> Japan is now considered to be a full member of the GHD group. Japan has not, however, developed a national GHD implementation plan as agreed at the 2004 high-level meeting in Ottawa. This peer review is the first time that Japan has been assessed by the DAC against its GHD commitments. The previous peer review did not contain any specific recommendations (OECD, 2003a).

The review has been conducted in accordance with the 2008 humanitarian assessment framework (OECD, 2008f). It is structured in line with the four thematic clusters of the GHD principles and good practices: (i) policy framework for humanitarian action; (ii) funding flows; (iii) promoting standards and enhancing implementation; and (iv) learning and accountability. It concludes by identifying issues for further consideration by the Japanese development co-operation system. The report primarily draws on a series of meetings held in Tokyo in October 2009 with MoFA and JICA officers and with Japanese NGO representatives, including the Japan Platform (see below). Supplementary comments were also sought from a number of European-based multilateral agencies.

#### Legislative and policy framework for Japanese humanitarian action

##### *Legal foundations*

Japan has defined its global humanitarian responsibilities within the framework of the 1947 Constitution, which requires political neutrality in the conduct of all overseas affairs. The Ministry of Foreign Affairs Establishment Law allocates responsibility for co-ordinating all policies concerning ODA (including humanitarian assistance) to MoFA. The legal foundation for humanitarian-related action is further defined by four laws – the act governing the Japanese Red Cross Society (1952), the Japan Overseas Disaster Relief Team Act (1987), the Act on Co-operation for United Nations Peacekeeping Operations and Other Operations (1992) and the International Co-operation Agency Act (JICA Act) (2002 and amended in 2006).

##### *Humanitarian action and the ODA Charter*

As with the rest of the development co-operation system, Japanese humanitarian action is anchored in the ODA Charter, which recognises that “humanitarian problems such as extreme poverty, famine, refugee crises and natural disasters ... are important

24 [www.goodhumanitariandonorship.org/background.asp](http://www.goodhumanitariandonorship.org/background.asp).

issues that need to be addressed in order for the international community as a whole to achieve sustainable development” (Article 1) (GoJ, 2003). The Charter invokes the concept of human security (Box 2, Chapter 1) for the protection and empowerment of individuals in order to ensure that human dignity is maintained at all stages, from conflict to reconstruction and development (Article 2.2).

### ***Humanitarian action in Japan’s Medium Term Policy on ODA***

Japan’s Medium Term Policy on ODA highlights transnational threats to human security ranging from conflict and terrorism through to natural disasters, pandemics and environmental destruction (GoJ, 2005a). It proposes both preventive and responsive approaches to these threats, and several of these approaches correlate with some of the GHD policy commitments (Box 12).

<b>Box 12. Relevance of Japan’s Medium Term Policy to GHD Commitments</b>	
Japan’s Medium Term Policy on ODA (2005)	Principles and Good Practices of Humanitarian Donorship (2003)
<p><b>Assistance that puts people at the centre of concerns and that effectively reaches the people:</b> Japan will seek to achieve assistance that effectively reaches the people by accurately identifying the needs of the residents of target areas and engaging as far as possible in dialogue with residents and other parties throughout the process from policy and project formulation and implementation to monitoring and evaluation.</p>	<p><b>GHD Principle No.6:</b> Allocate humanitarian funds according to needs and on the basis of a needs assessment.</p> <p><b>GHD Principle No.7:</b> Request implementation of humanitarian organisations to ensure, to the greatest possible extent, adequate involvement of beneficiaries in the design, implementation, monitoring and evaluation of humanitarian response.</p>
<p><b>Assistance to strengthen local communities:</b> In the case that a government is not functioning fully, Japan will support improvements in the administrative capacity of the government. But since, in each case, there is a risk that assistance through the government may not reach the people directly, assistance to local communities and projects based on a participatory approach shall be combined.</p>	<p><b>GHD Principle No.8:</b> Strengthen the capacity of affected countries and local communities to prepare for, mitigate and respond to humanitarian crises with the goal of ensuring that governments and communities are better able to meet their responsibilities and co-ordinate effectively with humanitarian partners.</p>
<p><b>Assistance that emphasises empowering people:</b> People will be regarded not just as a target of assistance but also as the “promoters of development” in their societies. Importance will therefore be placed on empowering people to become self-reliant.</p>	<p><b>GHD Principle No.9:</b> Provide humanitarian assistance in ways that are supportive of recovery and long-term development, striving to ensure that support, where appropriate, leads to the maintenance and return of sustainable livelihoods and transitions from humanitarian relief to recovery and development activities.</p>
<p><b>Assistance that emphasises benefiting people who are exposed to threats:</b> Assistance based on the “human security” perspective requires addressing, as comprehensively as possible, the threats confronting people bearing in mind both “freedom from want”, such as poverty, and “freedom from fear”, such as fear of conflict.</p>	<p><b>GHD Principle No.3:</b> Humanitarian action includes the protection of civilians and those no longer taking part in hostilities, and the provision of food, water, sanitation, shelter, health services and other items of assistance undertaken for the benefit of affected people and to facilitate the return to normal lives and livelihoods.</p>
<p><b>Assistance that respects cultural diversity:</b> Assistance will be provided to build societies in which cultural diversity is respected and people are not discriminated against based on their cultural backgrounds.</p>	<p><b>GHD Principle No.2:</b> Humanitarian action should be guided by the humanitarian principles of <i>impartiality</i>, meaning the implementation of assistance solely on the basis of need, without discrimination between and within affected populations.</p>



Japanese humanitarian action is currently dispersed across three of the four priority domains of the Medium Term Policy, *i.e.* poverty reduction, addressing global issues and peace-building. The poverty reduction cluster includes actions to protect vulnerable populations from sudden threats, such as economic crises and natural disasters; the global issues cluster includes disaster risk reduction initiatives that harness Japan’s own experience as a disaster-prone country; and the peace-building cluster includes emergency humanitarian assistance required in the immediate aftermath of conflict, as well as post-conflict reconstruction assistance. Overlap between disaster-related priorities in the poverty reduction and global issues clusters reflects a two-pronged approach (poverty and vulnerability reduction) to disaster risk management. Within the new JICA, disaster risk reduction (DRR) and post-crisis reconstruction assistance are incorporated within the fourth mission statement, “achieving human security”, which aims to “protect people from threats and build societies where they can live with dignity”.

### ***Humanitarian assistance policy***

The foundations for principled and coherent policy on humanitarian action are firmly in place within the broader legal and policy framework governing Japanese development co-operation. However, Japan’s policy approach differentiates between humanitarian action in the context of natural disasters and humanitarian action in the context of complex emergencies. Japan does not, therefore, have a single overarching humanitarian policy statement or a framework that systematically translates all GHD commitments into a national implementation platform which can be applied to both natural disasters and complex emergencies including conflict situations.

### ***Humanitarian action following natural disasters***

Japan has drawn on its own experiences to provide global leadership on mitigating and responding to natural disasters. Launched at the World Conference on Disaster Reduction in Kobe, shortly after the devastating 2004 Indian Ocean tsunami, the 2005 Initiative for Disaster Reduction through ODA sets out a comprehensive co-operation strategy for all stages of the disaster cycle: integration of disaster prevention perspectives into development policies; rapid and appropriate assistance in the immediate aftermath of a disaster; and reconstruction assistance that aims to build resilient economic and social infrastructure, systems and technologies. Importantly, it provides a template for implementing Japan’s commitments under the Hyogo Framework for Action 2005-2015, most notably in assisting partner countries to assume primary responsibility for disaster reduction through upgraded knowledge, institutional development and technology transfer. Furthermore, the initiative has positioned Japan at the forefront of global and regional DRR efforts. It also provides the policy anchor for Japan’s bilateral emergency response mechanisms and support for disaster preparedness activities. Japan also provides financial support for DRR, which was around USD 550 million in 2008 (MoFA, 2008; see also Box 9 in Chapter 6 on capacity building for DRR).

### ***Humanitarian action following complex emergencies***

There is not a corresponding policy for humanitarian action in complex emergency situations where Japan has adopted a more cautious approach, in line with the provisions of the 1947 Constitution. Humanitarian action in these contexts is generally subsumed within peacebuilding, and aimed at “restoring peaceful lives for people” (MoFA, 2009a).

In characterising humanitarian action in this way, there is some risk that it may be regarded as a peacebuilding – rather than a life-sustaining – tool. In apparent recognition of this risk, JICA revised its thematic guidelines, removing humanitarian action as a priority peacebuilding issue. Nevertheless, a robust policy statement by MoFA on the objectives of humanitarian action in these contexts would distinguish humanitarian action from peacebuilding assistance and avoid compromising the principles of impartiality and independence.

## **Financing Japanese humanitarian action**

### ***Management***

Japan uses the full range of instruments to deliver support to the international humanitarian system (*i.e.* grants, technical assistance and stockpiles of emergency relief items) and works through bilateral, multilateral and NGO channels. Japan's official humanitarian budget is allocated to MoFA and administered by the Humanitarian Assistance and Emergency Relief Division within the International Co-operation Bureau. JICA manages the bilateral component and is responsible for promoting and incorporating disaster risk reduction initiatives within country programme partnerships.

### ***Volume***

Japan reported net disbursements of bilateral humanitarian aid of USD 95 million in 2007. The proportion of bilateral ODA allocated for humanitarian aid (1.6%) was well below the DAC average (7%) for that year. Even when including an estimated USD 21 million in core contributions to multilateral humanitarian agencies, Japan ranked only 18th among DAC members in terms of overall volume of humanitarian aid. However, Japanese allocations for humanitarian action are subject to significant annual fluctuations in line with supplementary budget appropriations (Chapter 3) mobilised in response to major crises. For example, gross disbursements of USD 657 million and USD 527 million in 2004 and 2005 reflect supplementary budget allocations in response to the Indian Ocean tsunami and the Kashmir earthquake.

### ***Channels***

Japan is a consistent donor to the multilateral humanitarian system and prioritises support to UN Consolidated Inter-Agency Appeals (CAPs), flash appeals and ICRC/IFRC appeals in emergency situations. It was the third largest donor by volume to the UNHCR and the sixth largest donor to the WFP in 2008. Although a more modest donor to OCHA's core budget (14th, at USD 2.5 million in 2008), Japan also hosts the Asian hub of OCHA's ReliefWeb network in Kobe, which contributes to the 24 hour coverage of global crisis events. Japan is also by far the largest donor to the UN Trust Fund for Human Security, which is administered by OCHA. Japan's support for the Central Emergency Response Fund has also been relatively modest (totalling just USD 10.7 million since it was launched in 2006, with the bulk – USD 7.5 million – given in the first year). Japan has also been a regular donor to the ICRC (USD 14.3 million in 2008) although there are considerable fluctuations and contributions have complex reporting requirements compared with other donors.

Japanese government support for NGO humanitarian action is primarily channelled through the Japan Platform (JPF) mechanism. The JPF is responsible for determining

whether to respond to emergency situations, seeking and assessing proposals, monitoring implementation, as well as reporting to the government and other donors on expenditure and achievements. The JPF also serves as an information platform for media outlets. Funding is disbursed through a network of 32 member NGOs and administrative costs (seven staff members) are borne by the government grant. Japanese NGOs have remarked on the improvement in timeliness of government support since the JPF was established. However, the volume of official humanitarian ODA disbursed through this mechanism remains modest (averaging USD 10 million per year). Given the heightened interest in working through NGOs within the development co-operation system, Japan should consider scaling-up the volume of humanitarian support disbursed through the JPF in line with its members' substantial capacities. Simplifying procedures, such as reducing the detail required for financial accounting, would add further value to JPF grants.

### ***Priorities***

While Japan committed support to nearly every CAP and UN flash appeal in 2008, funding commitments are understandably skewed towards its highly disaster-prone region. For example, in 2008, it responded to IFRC appeals for the earthquake in Sichuan, China. Nevertheless, Japan did commit significant resources (USD 100 million) for emergency food aid, mainly targeting Africa following the global food crisis in 2008. In the longer term, however, it is unclear whether re-balancing the geographic spread of broader Japanese ODA will affect traditional disbursement patterns for humanitarian aid. Furthermore, “Japan allocates resources beyond these [CAP and ICRC/IFRC] appeals, for example in its bilateral aid, taking into account assistance requirements and the capacity of recipient countries” (GoJ, 2009).

### ***Quality of Japanese financing***

Japan provides the bulk of its support to multilateral agencies in the form of earmarked (bilateral) allocations. Several multilateral agencies also remarked on the high-level of customisation in terms of proposals and reporting associated with Japanese contributions. Meanwhile, Japanese NGOs commented on the cumbersome procedures, arduous reporting requirements and lack of funding predictability for recovery activities that inhibit planning for downstream programmes. Japan could do more to improve these aspects of humanitarian funding in line with the GHD commitments.

### **Promoting standards and enhancing implementation**

Japan regards its proximity to the disaster-prone regions of Asia and the Pacific as allowing it to deploy resources rapidly and to identify closely with the needs and vulnerabilities of affected communities. This has led to Japan hosting and funding two important initiatives that build regional capacities and promote standards within the humanitarian community in Asia and the Pacific: the Asian Disaster Reduction Centre (Box 13) and the UNHCR eCentre. Jointly funded by JICA under a renewable letter of intent, the eCentre has a mandate “to strengthen the operational capacity of NGOs, government agencies and international organizations in the Asia-Pacific region to prepare for and respond to humanitarian emergencies, with a special emphasis on problems relating to forced migration and human displacement”.<sup>25</sup> Notably, both MoFA and JICA

25 [www.the-ecentre.net/about/index.cfm](http://www.the-ecentre.net/about/index.cfm) accessed 17 November 2009.

have used eCentre training for their own staff development programmes, as well as encouraging participation by Japanese NGOs. In this respect, the eCentre initiative assists to embed global standards and practices within the Japanese development co-operation system.

### **Box 13. Asian Disaster Reduction Centre**

The Asian Disaster Reduction Centre (ADRC) was established in Kobe in 1998 to “to enhance the disaster resilience of the member countries, to build safer communities, and to create a society where sustainable development is possible”. ADRC works (i) to promote multilateral co-operation in the area of disaster risk reduction; and (ii) to disseminate and share disaster information among member countries, including best practice and lessons learned. ADRC is one of two regional members of the Asian Partnership on Disaster Reduction (IAP) and in this capacity plays an important role in connecting the governments and civil society groups in Asia into global DRR initiatives and as a platform to promote commitments under the Hyogo Framework for Action across the region.

#### ***Japan’s bilateral disaster relief capacity***

Under the law concerning Dispatch of the Japan Overseas Disaster Relief Team (1987), MoFA is mandated to respond to requests for assistance from governments of crisis-affected countries or from international organisations following natural and man-made disasters (except those arising from conflict). Assembled from professionals in Japan’s own emergency services and the Self-Defence Forces (SDF), Japanese Disaster Relief (JDR) teams provide technical services in the fields of search and rescue, medical assistance and technical support (volcano monitoring, oil spill clean-up etc). This deployable capacity is supplemented by stockpiles of emergency relief goods in Frankfurt, Johannesburg, Miami and Singapore that are ready for immediate response to requests for assistance. In 2007, one JDR team was deployed and 21 separate shipments of emergency relief goods were made, amounting to the equivalent of USD 3.7 million (MoFA, 2008).

Japanese NGOs supported by government grants are requested to follow MoFA security instructions. If the security environment deteriorates, NGOs may be required to limit or cease operations and evacuate staff (as has happened previously in Afghanistan and continues to apply in Somalia). In taking this course of action to protect Japanese citizens, however, embassies need to maintain an appropriate balance between imposing operational restraints and maintaining the independence of NGO humanitarian action from other policy concerns. It is an awkward dilemma and anxiety expressed by some within the humanitarian NGO community at unilateral decisions of this nature might be averted by a more comprehensive dialogue with JPF members on security of aid workers under these circumstances.

#### ***Co-operation with the self-defence forces***

Japan’s Self Defence Forces teams have been deployed to natural disaster situations under the JDR framework. For example, after the Kashmir earthquake in 2005 an SDF unit provided critical airlift capacity and medical support; and following the Yogyakarta earthquake in 2006, an SDF unit rapidly established an emergency hospital. More recently it dispatched SDF units to both Haiti and Indonesia following earthquakes there. In accordance with GHD commitments, SDF teams are considered an option of last resort in these circumstances.

In addition to their role in supporting humanitarian operations in natural disasters, SDF teams are increasingly being deployed to fragile and conflict affected situations. Japan's Act on Co-operation for United Nations Peacekeeping Operations and Other Operations (1992) permits Japanese SDF units to participate in UN peacekeeping and international humanitarian relief operations under certain conditions. Where these conditions are met, SDF units can participate in a range of activities including monitoring of a cease-fire, medical care, engineering work and transportation. In addition, temporary legislative acts have since been passed by the *Diet*: including The Law Concerning the Special Measures on Humanitarian Assistance in Iraq (2003), which authorised the despatch of an SDF contingent to southern Iraq in a non-combat, reconstruction and humanitarian role. However, the more frequent resort to SDF assets in recent years and the increased emphasis on conflict and security issues suggest that SDF units will come into contact with humanitarian actors more often in the future. Accordingly, there is an urgent need to promote further dialogue between relevant civil and military actors in order to uphold the independence, impartiality and civilian led nature of Japanese humanitarian action – in line with the GHD principles.

### ***Linking emergency response to recovery and development***

Japan emphasises holistic approaches to natural disasters and ensuring “seamless transitions” from relief to recovery and development. While the former aligns strongly with contemporary global approaches to natural disasters, the latter will require a more robust association between decision-making processes for humanitarian and development assistance. In particular, beyond the streamlined processes for allocating assistance during emergencies (*e.g.* the JPF), Japanese assistance is still subject to the cumbersome design and approval processes that burden the rest of the development co-operation programme (Chapter 4). These constrain implementing agencies from providing the timely and beneficiary-led assistance required for seamless transitions and to which Japan is committed under the GHD initiative. For example, Japan's prompt provision of emergency assistance after the devastation caused by Cyclone Sidr (November 2007) was acknowledged during the field visit to Bangladesh (Annex D), but its implementation of the longer-term project of constructing cyclone shelters has been less rapid.

### **Learning and accountability**

Japan's approach to learning and evaluation in the humanitarian sector does not differ from the broader development co-operation programme. Selected themes and projects are evaluated and some of the recommendations are follow-up approximately 12 months later with full disclosure in the annual Evaluation Report on Economic Co-operation (Chapter 5). MoFA's ODA Evaluation Guidelines do not identify a separate set of criteria for evaluating Japanese humanitarian action, despite this being recommended by the DAC for evaluating humanitarian action in complex emergencies (MoFA, 2009b; OECD, 1999). However, in accordance with JICA's mid-term objectives (JICA, 2003b), a distinctive set of four criteria has been separately developed for evaluating Japan's bilateral ODA in natural disaster situations (Box 14). These were applied to the individual and collective analysis of evaluations of seven JDR deployments conducted in 2006 (JICA, 2008f). The latter recommended that the four criteria should be benchmarked and monitored continually and that further improvements were required to data-gathering and information dissemination (JICA, 2008f).

#### **Box 14. Evaluation guidelines for JDR teams (“STOP the pain”)**

1. Speed (prompt action): Did the team act promptly after the dispatch was decided, in the departure phase in Japan, in the arrival phase at the activity site, up to the start of its activities?
2. Target groups (meeting affected people’s needs): Did the team fully understand the victims’ needs and act appropriately to meet them?
3. Operation (activity efficiency): Did the team fully use their resources (team members, equipment, materials etc) to produce results?
4. Presence (degree of acknowledgement): Were the team’s activity and results fully recognised by the public (including the victims), the affected country’s government, international organisations and other donor countries?

#### **Human resource management**

In the recent re-organisation of the International Co-operation Bureau, the Humanitarian Assistance Division and the Overseas Disaster Assistance Division were consolidated into a single entity: the Humanitarian Assistance and Emergency Relief Division. This provides greater cohesion to Japanese humanitarian action, particularly in the many complex situations where conflict and natural disasters overlap. However, as noted earlier, the policy framework does not yet support this merging of responsibilities. A dedicated secretariat is located within JICA to manage the Japan Disaster Relief Team, while geographic departments have responsibility for liaising with MoFA on crisis-related issues at all stages, from prevention through to response and recovery. Humanitarian-related policy issues are the responsibility of the Peacebuilding and Poverty Reduction Division within the Public Policy Department of JICA.

#### **Cross-cutting issues in humanitarian action**

In accordance with Japan’s human security perspective (Box 2, Chapter 1), as well as its gender mainstreaming policy, “the gender perspective must be incorporated in the actions to address global issues, including natural disasters” (GoJ, 2005a). The Medium Term Policy on ODA goes on to observe that “it is necessary to appropriately reflect the needs of women and men by taking actions that incorporate a gender perspective at all stages of peacebuilding assistance from emergency humanitarian assistance, post-conflict reconstruction and development assistance” (GoJ, 2005a). Similarly, the *Thematic Guidelines on Peacebuilding Assistance* (JICA, 2003c) state that “when providing [humanitarian] assistance, it is necessary to accurately respond to the different needs of different gender and age groups”. JICA’s 2006 *Handbook for Transition Assistance* also lists questions to help staff identify gender-related issues (JICA, 2006b). Despite these clear policy intentions, it is unclear how Japan’s humanitarian action responds to gender issues in practice, as well as to the different challenges facing men and women in humanitarian situations. In terms of governance and human rights, a robust application of the principles of impartiality and independence could help. Japan’s response to the humanitarian crisis created by the post-election violence in Kenya is one example of the clear importance of applying these principles.

#### **Future considerations**

- Japan should elaborate a plan for implementing the good humanitarian donorship principles.

- A robust policy statement on the objectives of humanitarian action in conflict situations to complement the Initiative for Disaster Reduction through ODA and help to distinguish between humanitarian action and peacebuilding assistance in these difficult contexts.
- Japan is encouraged to increase the volume and stability of assistance to the international humanitarian system. At the same time, the volume of humanitarian support disbursed through the Japan Platform (JPF) could be scaled-up. Simplifying reporting procedures would add further value to JPF grants and enable Japan to be nimbler in its response to humanitarian needs.
- A deeper engagement among relevant civil and self –defence actors to clarify roles further and protect the integrity of Japanese humanitarian action in crisis situations. This would also provide a meaningful platform to deepen dialogue with the NGO community on mutual policy concerns, e.g. security of aid workers.





## Annex D

### Field visit report, Bangladesh and Kenya

The peer review team, comprising four examiners from Denmark and Germany and two members of the DAC Secretariat, visited Bangladesh in October 2009 and Kenya in November 2009. The team met with Japanese development co-operation staff, officials from partner country governments – including ministries of finance and line ministries – other bilateral donors and multilaterals, as well as representatives from both Japanese and partner country civil society organisations.

#### Country context

Both Bangladesh and Kenya are low income countries (LICs) according to World Bank classifications.<sup>26</sup> Bangladesh is also classified by the UN as one of the world's 50 least developed countries (LDCs).<sup>27</sup> Both countries have fragile democracies, and some internal unrest. Bangladesh ranked 139th and Kenya 146th in Transparency International's 2009 Corruption Perception Index.<sup>28</sup> Both also rank in the bottom quartile for most of the World Bank's World Governance Indicators.<sup>29</sup> The countries experience recurring humanitarian emergencies caused mainly by droughts (Kenya) and floods and cyclones (Bangladesh). Recent post-election violence in Kenya also led to the internal displacement of around 250 000 people, many of whom required humanitarian assistance; some are still displaced two years later.

Aid is an important component of developmental state spending in both countries. However, in 2008 ODA equated to 2.4% of GNI in Bangladesh and 4.0% in Kenya, so neither country is highly aid dependent (OECD, 2010). Nevertheless, a large number of donors are active in both countries: in 2007, 33 donors were present in Bangladesh and 34 in Kenya (OECD, 2009a). Both countries have current poverty reduction strategy papers (PRSPs). In Bangladesh, the 2005 PRSP was revised in 2008 and again in 2009 following a change of government. The Government of Bangladesh has now taken a decision to move from three to five-year strategies and intends to use two five-year plans to take it towards its *Vision 2021*. It also uses three-year medium-term expenditure frameworks. The Government of Bangladesh also has sector strategies to support sector-wide approaches in education and health, and agreed a climate change strategy and action plan

26 [http://web.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS/0,,contentMDK:20421402~pagePK:64133150~piPK:64133175~theSitePK:239419,00.html#Low\\_income](http://web.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS/0,,contentMDK:20421402~pagePK:64133150~piPK:64133175~theSitePK:239419,00.html#Low_income), accessed 1 December 2009

27 [www.unohrrls.org/en/ldc/related/62/](http://www.unohrrls.org/en/ldc/related/62/), accessed 1 December 2009.

28 [www.transparency.org/policy\\_research/surveys\\_indices/cpi/2009/cpi\\_2009\\_table](http://www.transparency.org/policy_research/surveys_indices/cpi/2009/cpi_2009_table), accessed 1 December 2009.

29 [http://info.worldbank.org/governance/wgi/sc\\_country.asp](http://info.worldbank.org/governance/wgi/sc_country.asp), accessed 1 December 2009.

in 2008. In Kenya the government's Economic Recovery Strategy was recently replaced by *Vision 2030* – a longer-term strategy. The government has also introduced a medium term plan (2008-2012) to detail funding for the longer-term vision. The Kenyan government has a well established sector-wide approach and strategy in the education sector. In both Bangladesh and Kenya, government co-ordination and management of aid is led by a division within the Ministry of Finance.

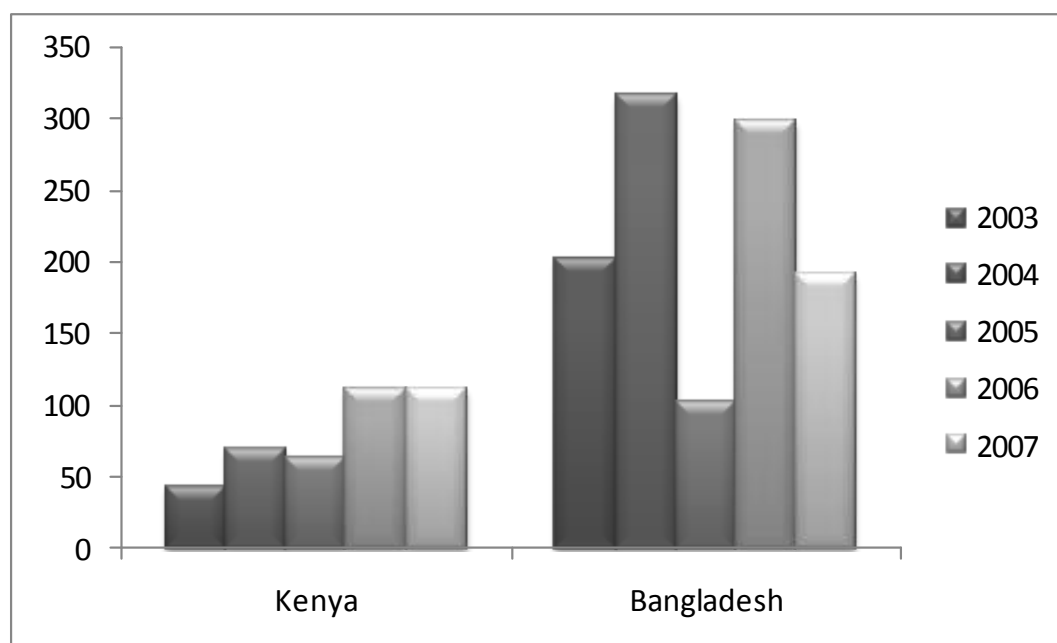
### Japan's programmes

Both Bangladesh and Kenya are flagship country programmes for Japan. They represent the more advanced of Japan's country programmes and provide some positive examples of the direction in which Japan wants to take more of its country programmes in the future.

Japan has been active in Bangladesh since 1973 and in Kenya since 1964, *i.e.* since the early days of independence. In both countries it is a well established and respected partner. Today, Japan is a major donor in both countries: in 2007 it was the third biggest donor in Bangladesh and the fourth biggest in Kenya. In the same year, Bangladesh was the 11th largest recipient of Japan's ODA and Kenya the 17th largest, receiving 2% and 1% of Japan's bilateral aid respectively. Although Japan's programme in Kenya is roughly half the size of the one in Bangladesh (Figure D.1) it is amongst the largest of Japan's aid programmes in Africa and has doubled in size over the last five years.

**Figure D.1. Japan's ODA to Kenya and Bangladesh, 2003-2007**

Disbursements in USD (2007 constant prices)



Source: OECD Statistics

For each of the two partner countries Japan has a Country Assistance Programme (CAP). This overarching document states Japan's priorities; it is an official MoFA

document and is publicly available. The CAP for Bangladesh was originally formulated in 2000 and revised in 2006 following a MoFA commissioned external evaluation. Japan plans to update the strategy again in 2010, following expected updates to the Government of Bangladesh's strategies. The 2000 CAP for Kenya has not yet been updated, despite an evaluation in 2006. Table D.1 outlines the priorities of each CAP. One of the main findings of the 2006 evaluation of the Kenyan CAP was that it lacked a clear overall objective, sub-objectives and targets against which to assess progress. In contrast, the more recent CAP for Bangladesh includes an overall objective, three priority goals and more specific sub-goals (MOFA 2006c). At the time of the review team's visit, the process to update the CAP for Kenya had just begun, though it was not clear that the results of the 2006 evaluation of the existing CAP had been fully taken on board. Japan is increasingly trying to align its CAPs with partner government strategies. However, the Kenya CAP is now nine years old and predates any current government strategies. So updating the CAP is an opportunity to align and harmonise better and Japan intends to use both *Vision 2030* and the joint donor assistance strategy in formulating a new CAP. Japan will also use the priorities outlined in the Tokyo International Conference on African Development (TICAD) to frame its approach in Kenya (Box 3).

Japan also has a "Rolling Plan" for each country, which includes a list of planned and ongoing projects. Once individual projects have been formally agreed, annual disbursement figures are included in the rolling plan and this is shared with the partner government.

**Table D.1. Priorities in the current Country Assistance Programmes**

	Bangladesh (2006)	Kenya (2000)
<b>Overall goal</b>	Poverty reduction, (Assistance for the implementation of the PRSP)	None stated
<b>Priority areas</b>	Economic growth Social development with human security Governance	Human resource development Development of economic infrastructure Agricultural development Health and medical care Environmental conservation
<b>Sub goals</b>	35 goals, divided by sector	None stated

Japan uses a mix of grants, technical co-operation and concessional lending in both countries. Although the proportion of the overall programme provided as loans has fluctuated between 2003 and 2008, the overall trend in the two countries has run in opposite directions, with the proportion of aid provided as loans increasing in Kenya and decreasing in Bangladesh (Table D.2). However in both 2006 and 2007 Japan made major new loan commitments to Bangladesh (totalling over USD 500 million) and in 2007 also to Kenya (USD 275 million) and these commitments are not reflected in current disbursement figures, so the trend is unlikely to continue. The sector receiving the largest share of Japanese ODA, in both countries, is economic infrastructure. This is because a few large infrastructure projects, often funded through loans, sit alongside smaller grant and technical co-operation projects in a range of sectors.

**Table D.2. Percent of disbursed ODA provided as loans (2007 constant prices)**

	2003	2004	2005	2006	2007
<b>Bangladesh</b>	40.1	14.9	32.9	4.9	13.4
<b>Kenya</b>	3.5	46.9	23.3	54.5	50.7

*Source:* OECD statistics

Other key features of Japan's development co-operation in these two countries include its use of triangular co-operation and its engagement with emerging and non-DAC donors. In Kenya, in particular, Japan has involved South East Asian countries in one of its technical co-operation projects (Box 10, Chapter 6). The Japanese Embassy has also been proactive in initiating a dialogue with some other donors who are active in the country but are not yet engaged with the general aid co-ordination group or signed up to the Kenya Joint Assistance Strategy (KJAS).

### **Organisation and management**

Japan has established ODA task forces in both Bangladesh and Kenya; indeed Bangladesh was one of the countries where the model was piloted. The organisations represented in the ODA task forces are the Japanese Embassy, JICA (which now includes parts of former JBIC), and JETRO. In addition, the task force in Kenya consults the Japan Society for the Promotion of Science. The ODA task forces meet formally, either once or twice a year, and more regularly on an informal basis. These forums perform a helpful co-ordination function.

The division of labour between the embassies and JICA offices in the two countries largely reflects that between MoFA and JICA in Tokyo (Chapter 4). JICA is the implementation agency and the embassy is the policy setter, though the latter is closely involved in some aspects of programme implementation, notably in managing small grants for local NGOs. In addition, in both Bangladesh and Kenya the Japanese Embassy represents Japan to the partner government and in aid co-ordination groups, and agrees the overall strategy. JICA staff also liaise closely with government counterparts on specific projects and are more engaged in co-ordination groups at the sector level. JICA also has input into the strategy through the ODA task force.

Table D.3 provides the basic details of staffing. In both countries the staffing complement has seen a slight decrease over previous years. Staff workload is high in both the embassies and JICA offices. The extent to which embassy staff are required to be involved and engaged in various aspects of development co-operation, despite their limited numbers, means their workload is particularly challenging. Japan has been able to recruit high calibre local staff who play an extremely important role in both countries. JICA is now delegating more responsibility to its local staff and some are able to be promoted within the organisation. However, non-Japanese staff face challenges since many documents and training opportunities are only available in Japanese. The embassies in both countries have also recruited Japanese staff locally to help run the small grants scheme for local NGOs. In each country team JICA has allocated one member of staff as a focal point for evaluation and another for gender.

**Table D.3. Staff involved in Japanese development co-operation in Bangladesh and Kenya, 2009**

	Bangladesh	Kenya
Embassy	10	12
JICA	40	49
JETRO	1	2

*Source:* Government of Japan. Figures exclude support staff, such as drivers and cleaners.

*Note:* Figures include all support staff but exclude technical co-operation staff stationed within partner government organisations.

As a brand name, JICA is well known in both countries. JICA also runs the Japan Overseas Co-operation Volunteers (JOCV) programme, which has a high public profile. In Bangladesh, the involvement and integration of JOCVs in local communities was warmly welcomed by government and other stakeholders there, particularly because they understood the local language. In 2008, JOCVs based in areas of Kenya affected by the post-election violence had to be relocated.

Japan also bases some of its regional functions for East Africa in Kenya. For example, JICA Kenya Office is in charge of Japanese co-operation with Burundi, Eritrea, Seychelles and Somalia and has a regional unit to support all offices in Sub-Saharan Africa. Japan moved its coverage of Somalia from Ethiopia to Kenya, since most other donors and agencies manage their Somali programmes from there, thus increasing its ability to co-ordinate. Japan clearly understands the importance of regional development, as illustrated in projects such as the One Stop Border Post in the East African Region.

### The aid co-ordination context

There are over 30 bilateral and multilateral donors active in both Bangladesh and Kenya. In both countries, donors and the partner governments have tried to increase aid co-ordination. As noted, both countries have PRSPs and government co-ordination and management of aid is led by a division within the Ministry of Finance. In Bangladesh this is the Economic Relations Division and in Kenya the External Resource Department (ERD). In each case, the ERD is responsible for working with donors. Direct donor-line ministry communication is not encouraged, and instead the ERD acts as matchmaker or co-ordinator.

In addition, in Bangladesh the ERD contains a unit working specifically on aid co-ordination including harmonisation. It produced a Harmonisation Action Plan in 2006, which is Bangladesh's specific response to the Paris Declaration. As it includes measurable and time-bound actions for donors, the government or both, it was intended to act as a mutual accountability tool, though in practice this has been a challenge. JICA also funded the ERD's Harmonisation Action Plan Cell to lead a 2008 evaluation of implementing the Paris Declaration in Bangladesh (Box 15). In 2008, 15 donors, including Japan, signed a statement of intent on developing a Joint Co-operation Strategy for Bangladesh (JCS) and a first draft of the strategy was under discussion by the beginning of 2009. This process is being led by the Bangladeshi Ministry of Finance. Previously, Japan and the three other largest donors in Bangladesh had agreed a joint strategy and elements of this and the process behind it will be superseded once the more comprehensive joint strategy and supporting process is agreed.

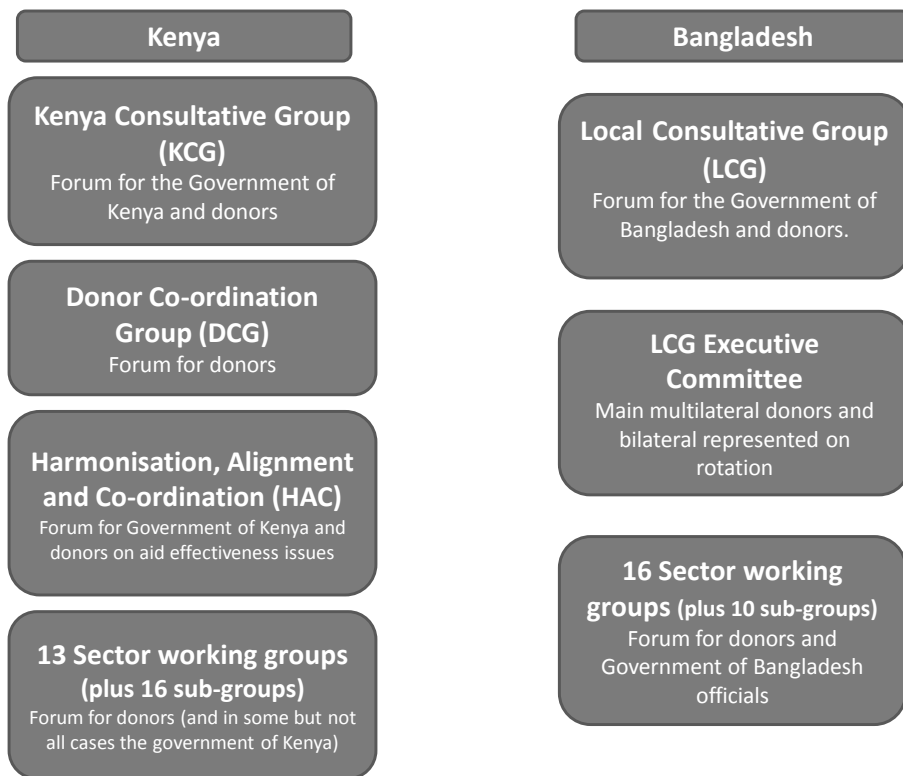
**Box 15. Selected findings from the Evaluation of the Implementation of the Paris Declaration, Bangladesh**

- There is awareness of the Paris Declaration among development partners, though depth of knowledge is not good beyond those dealing specifically with it. Similarly, few government officials have a deep understanding of the principles.
- Development partners whose headquarters emphasise aid effectiveness demonstrate more commitment in the field than those who do not have this emphasis.
- There was very little reduction in the number of parallel project implementation units in the period reviewed and the number of missions increased by 60%.
- Capacity amongst some development partners and turnover of staff are problems and the capacity of Government of Bangladesh officials also needs to be addressed to make further progress.
- There has been substantial progress on harmonisation, through the introduction of joint bilateral donor strategies, increased co-ordination of UN agencies and the government's introduction of sector-wide programmes in primary education and health.

*Source:* Choudhury 2008, *Evaluation of the Implementation of the Paris Declaration: Case study at country level, Bangladesh.*

In Kenya, 17 donors, including Japan, signed up to the Kenya Joint Assistance Strategy (KJAS) in 2007. The strategy will cover up to the end of 2012, and was under a mid-term review when the team visited in 2009, following the post-election violence the previous year. Although development partners are openly self-critical about the shortcomings of the first KJAS, in particular in relation to the division of labour and the monitoring and evaluation framework, the usefulness of the document in co-ordinating a donor response to the post-election violence in 2008 is widely acknowledged. The development of the original KJAS was very much a donor-led process, but there are attempts to increase the engagement and initiative of the Government of Kenya. .

In both Kenya and Bangladesh there is an overarching aid co-ordination group (Figure D.2). In Bangladesh this is known as the Local Consultative Group (LCG), and in Kenya as the Kenya Consultative Group (KCG). In addition, in Kenya a group has been established to focus specifically on aid effectiveness issues and is known as the Harmonisation, Alignment and Co-ordination (HAC) group. These overarching co-ordination groups involve high-level representation, usually ambassadors or heads of aid programmes. They are supplemented by a large number of working groups. In Bangladesh, where there are currently 26 sector and sub-working groups, the government and development partners have agreed to try to reduce the number to around 15-16 and better align the groups to the priorities of the PRSP. In Kenya there are 29 working groups and sub-groups. Here, a complex process of dividing and sub-dividing ministries and restructuring government functions is complicating how sector level working groups engage with government.

**Figure D.2. Aid co-ordination in Kenya and Bangladesh**

Sources: Japanese embassies in Kenya and Bangladesh

Note: The KCG has recently changed its name to the Development Partnership Forum and the HAC to the Aid Effectiveness Group.

### Japan's efforts to harmonise and align its project approach

In both Bangladesh and Kenya, Japan is involved in donor co-ordination mechanisms. It participates in the sector working groups for which it has significant engagement and in some cases has taken on the role of lead donor or chair. Indeed, its involvement was highlighted as extremely important and beneficial by all development partners. Other donors noted that where Japan has taken a leading role, such as chair or co-chair of a sector group, staff had been highly competent and well engaged. However, some noted that such leadership could be strengthened by closer engagement in relevant policy level issues, such as regulatory reform or governance issues within that sector. In addition, its partners thought that Japan, as a major donor in both countries, could have more of an impact and share its very relevant experience and perspectives by exercising its voice more robustly in all the aid co-ordination forums in which it participates. The perception amongst some donors was that Japanese staff in the field felt constrained in their engagement and in making the Japanese voice heard because of limited delegation of authority to the field. These issues were raised in both countries.

According to the 2008 Monitoring Survey of the Paris Declaration, all of Japan's technical co-operation in Kenya and Bangladesh was aligned with country programmes and Japan was not running any parallel project implementation units in either country.

However, while in Bangladesh a high proportion (94%) of Japanese aid was disbursed as predicted in government budget estimates, this was not the case for Kenya (26%). In Bangladesh, around half of Japanese aid for the government sector used country systems (*i.e.* auditing and procurement), down from 59% in the 2005 survey. In Kenya, around a quarter was disbursed using country systems, up from 7% in 2005 (OECD, 2008a).

The review team discussed two projects in each of the two countries to illustrate how Japan works.<sup>30</sup> Some of these projects may offer good practice examples of how Japan has aligned and co-ordinated its activities, while still retaining a project approach. For example, despite not being involved in pooled funding mechanisms, Japan was aligning its projects to government priorities and sharing information with other development partners.

In the education sector in both countries the partner governments have established a sector-wide strategy and there is an active sector wide approach (SWAp), including a pooled fund. However, in neither case does Japan contribute to the pooled fund. Nevertheless, in both cases all partners saw that Japan had made efforts to ensure that a Japanese education project (SMASSE, Strengthening of Mathematics and Science in Secondary Education – Box 10, Chapter 6 in Kenya and Strengthening Primary Teacher Training in Science and Mathematics in Bangladesh) was aligned with governments' overall strategies and that information about the projects was widely shared. This project, based on a model that worked successfully in Southeast Asia, is now operating in both Bangladesh and Kenya. It appears to have been highly successful in Kenya in improving teaching capacity in science and maths. One key factor which has helped the project to succeed in Kenya is the strong and high-level ownership of the project by the Kenyan Ministry of Education. The ministry took the decision to fully integrate the teacher training programme into its own systems. This has not only led to an increase in participation, but also to a decrease in unit costs since existing government buildings and officials were then used to implement the project at local level. In Bangladesh, the peer review team heard concerns that the project was not so well connected or integrated to the government's general approach to education, raising issues about the viability of scaling up and sustainability. Since then the Government of Bangladesh has chosen to scale up part of the project using finance from the pooled fund and bringing it into the wider sector programme. Japan's support to Bangladesh's Local Government Engineering Department (LGED) also responded to a need identified by the Government of Bangladesh. It delivered Japanese training and technology in the transport sector, focusing on areas where the Government of Bangladesh considered Japan to have some comparative advantage.

In both countries it appears that Japan's teams are trying to align more, but that this type of approach is not yet systematic. For example, Japan's biggest project in Kenya supports the expansion of Mombasa Port's cargo handling capacity. Though this project is in line with the government's top priorities, it has been designed as a standalone project rather than part of a wider programme for developing the port. Its success will in fact depend on factors external to the project scope and not part of Japan's funding – construction of an access road to the expanded area and dredging of the water to allow access for the boats – which, at the time of the team's visit, had not been resolved. Other

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30 Since the focus of the peer review is on policy, process and management, the team discussed projects with major stakeholders and managers. The team did not fully evaluate the results or impacts of the projects or visit project sites in the field.



development partners pointed out that risks to the success of Japan's project could have been substantially reduced had it been incorporated into a wider port development plan, with this project incorporated in it and other components funded by other donors and potentially other partners, including the private sector. However, Government of Kenya was keen to move ahead with project and having now identified these risks, the government hopes to secure funding from other sources to deal with them. In contrast, in Kenya's energy sector, Japan is delivering part of a jointly-agreed programme for thermal energy development, but will deliver its component in parallel to other donors.



## 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.*<sup>31</sup>

**ASSOCIATED FINANCING:** The combination of official development assistance, whether grants or loans, with other official or private funds to form finance packages.

**AVERAGE COUNTRY EFFORT:** The unweighted average ODA/GNI ratio of DAC members, *i.e.* the average of the ratios themselves, not the ratio of total ODA to total GNI (cf. ODA/GNI ratio).

**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 the Development Co-operation Report.

**DAC LIST OF ODA RECIPIENTS:** For statistical purposes, the DAC uses a list of ODA recipients which it revises every three years. From 1 January 2007, the list is presented in the following categories (the word "countries" includes territories):

**LDCs:** Least Developed Countries. Group established by the United Nations. To be classified as an LDC, countries must fall below thresholds established for income, economic diversification and social development. The DAC List is updated immediately to reflect any change in the LDC group.

**Other LICs:** Other Low-Income Countries. Includes all non-LDC countries with per capita GNI USD 825 or less in 2004 (World Bank Atlas basis).

**LMICs:** Lower Middle-Income Countries, *i.e.* with GNI per capita (Atlas basis) between USD 826 and USD 3 255 in 2004. LDCs which are also LMICs are only shown as LDCs – not as LMICs.

**UMICs:** Upper Middle-Income Countries, *i.e.* with GNI per capita (Atlas basis) between USD 3 256 and USD 10 065 in 2004.

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

**DIRECT INVESTMENT:** Investment made to acquire or add to a lasting interest in an enterprise in a country on the DAC List of ODA Recipients. In practice it is recorded as the change in the net worth of a subsidiary in a recipient country to the parent company, as shown in the books of the latter.

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31. For a full description of these terms, see the *Development Co-operation Report 2009*, Volume 10, No. 1.

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

**EXPORT CREDITS:** Loans for the purpose of trade and which are not represented by a negotiable instrument. They may be extended by the official or the private sector. If extended by the private sector, they may be supported by official guarantees.

**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 (interval to the first repayment of capital). It measures the concessionality of a loan, expressed as the percentage by which the present value of the expected stream of repayments falls short of the repayments that would have been generated at a given reference rate of interest. The reference rate is 10% in DAC statistics. This rate was selected as a proxy for the marginal efficiency of domestic investment, *i.e.* as an indication of the opportunity cost to the donor of making the funds available. Thus, the grant element is nil for a loan carrying an interest rate of 10%; it is 100% for a grant; and it lies between these two limits for a loan at less than 10% interest.

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

**OFFICIAL DEVELOPMENT ASSISTANCE (ODA):** Grants or loans to countries and territories on the DAC List of ODA Recipients and multilateral agencies that are undertaken by the official sector; with the promotion of economic development and welfare as the main objective; at concessional financial terms (if a loan, having a grant element of at least 25%).

**ODA/GNI RATIO:** To compare members' ODA efforts, it is useful to show them as a share of gross national income (GNI). "Total DAC" ODA/GNI is the sum of members' ODA divided by the sum of the GNI, *i.e.* the weighted ODA/GNI ratio of DAC members (*cf.* Average country effort).

**OTHER OFFICIAL FLOWS (OOF):** Transactions by the official sector with countries on the DAC List of ODA Recipients which do not meet the conditions for eligibility as official development assistance, either because they are not primarily aimed at development, or because they have a grant element of less than 25%.

**TECHNICAL CO-OPERATION:** Includes both a) grants to nationals of aid recipient countries receiving education or training at home or abroad, and b) 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 aid recipient countries.

**VOLUME (real terms):** The flow data are expressed in United States dollars (USD). 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 in the donor's currency between the year in question and the reference year, and changes in the exchange rate between that currency and the United States dollar over the same period.



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