

INTERNATIONAL COMPARISON OF JAPAN'S OFFICIAL DEVELOPMENT ASSISTANCE (ODA)

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ABSTRACT

The introduction of the ODA Charter in 1992 can be seen as Japan's official pledge to pay more attention to political conditions in recipient countries and to impose political conditionalities on them. However, in practice, the Japanese government has continued using foreign aid as a diplomatic tool to pursue own economic interests. In this paper, in order to determine the quality of Japanese foreign aid, Japan's ODA will be compared with the foreign aid of other countries. In term of quantity, the amount of Japan's ODA is impressive. In 1989, Japan topped the US as the biggest donor of foreign aid among all aid donor countries. Despite the impressive quantity of Japanese foreign aid, the ratio of Japan's ODA to GNI in 2016 was 0.20 percent, which was lower than the average ODA ratio to Gross National Income (GNI) among Development Assistance Committee (DAC) members (0.32 percent). Norway was the country with the highest ratio (1.11 percent) followed by Luxembourg (1.00 percent). In term of geographical distribution, a prominent characteristic of Japan's ODA is that Asia, especially East Asian countries, received the biggest share of Japanese aid. In 2015, 28 percent of Japan's ODA was allocated to south and central Asia and 31 percent to Far East Asia. Meanwhile, Sub-Saharan African region received 11 percent of Japan's bilateral ODA, Middle East and North Africa eight percent, Latin America and Caribbean region four percent and Europe received only two percent. Furthermore, Grant Share (GS) of Japan's ODA in 1997 was 39.6 percent, while the DAC's average rate of GS that year was 77.8 percent. Among DAC members, the Scandinavian countries, Australia and New Zealand had a very high GS, almost 100 percent. Germany's and France's GS were nearly 80 percent. These figures show that Japan's GS has been one of the lowest among DAC members. Also, Japan's untied aid ratio became one of the highest of the DAC.

Keywords: Official Development Assistance, Japan, Development Assistance Committee, Gross National Income

INTRODUCTION

Japan is one of the oldest and largest members of the Development Assistance Committee of the Organization of Economic Co-operation and Development (OECD-DAC). However, the Japanese model of development has been subject to considerable criticism by the donor establishment (mostly the OECD-DAC) and others in the development community because it is so distinct and diverges from the standard model of aid effectiveness. This has resulted in a tendency among the donor peer community to view the Japanese ODA as being of lower quality. Therefore, a study was conducted in order to analyse the quality of Japan's ODA. This article is organized into four parts. The first part introduces readers with the background of

Japan's ODA, the commencement of Yen loan and Japan's initial involvement in international aid organization. Meanwhile, the research design is covered in the second part. Readers will be enlightened with the main body of discussion in part three which covers the comparison of Japan's ODA with other DAC member countries. Finally, the whole discussion as well as the way forward of the Japan's future ODA will be concluded in part four.

BACKGROUND OF JAPAN'S ODA

Japan's development assistance can be traced in the 1950s, before its participation to the Development Assistance Committee (DAC). On 6 October 1954, the Japanese Cabinet approved

a resolution for Japan to join the Colombo Plan for Cooperative Economic and Social Development in Asia and the Pacific. Later that month, having secured the mediation of the United States, which wished to see Japan reintegrated into the international community, Japan participated as an official member at the 6th Consultative Committee Meeting of the Colombo Plan. From the year after joining, Japan began to provide government-based technical cooperation programs in the form of trainees and dispatching experts. It marked a memorable start of Japan's government-to-government economic cooperation with developing countries. The Colombo Plan was launched in 1950 with the aim of facilitating economic and technical cooperation among the member countries of the British Commonwealth of Nations. Subsequently, recipient areas of its aid were expanded, and Japan extended technical assistance to Asian countries after joining it. The year 1954 was also a year in which Japan signed with Burma (now called Myanmar) a peace treaty and an agreement on reparations and economic cooperation and started paying reparations to that country. Following this, Japan started paying reparations to other Asian countries, which constituted the central aspects of Japan's economic foreign policy toward Asian countries until mid-1960s. The reparations were completed in 1976.

A succession of reparations treaties was signed with the Philippines, Indonesia, and the Republic of Vietnam (South Vietnam). Other than these, though not reparations in the strict sense, grant aid (known as "quasi-reparations") has been provided to Cambodia, Laos, Thailand, Malaysia, Singapore, Korea, and Micronesia. The historical background of Japan's financial assistance starting as providing reparations and economic cooperation in tandem therewith to Asian countries combined with the basic policy of placing emphasis on providing cooperation for Asian countries that have close links with Japan, became the model for the subsequent Asia focus of Japan's Official Development Assistance (ODA).

In 1958, Japan extended yen loans (ODA loan) to India, the first of its kind marking a starting point of Japan's economic cooperation in earnest. This was conducted independently of the issue of atoning for the war through reparations and had a ground-breaking significance in the sense that it was the start of financial cooperation with concessional

conditions. Japan's reparations and extension of yen loans in the 1950s and 1960s had the objectives of expanding export markets for Japan and securing imports of important raw materials, and there were high expectations of a beneficial effect from these actions for the Japanese economy. This stance was also reflected in the tied aid rate, which was almost 100% until the end of the 1960s. The payment of reparations and extension of yen loans Japan had made in those early years were aimed at promoting friendly relations with Asian countries. As the economy of Japan grew stronger and its international status improved since the second half of the 1960s, its foreign aid expanded in scale and the form of its aid diversified. In addition to general grant aid started in 1969, Japan made steady efforts to improve tying status of ODA loans from the standpoint of efficient use of aid resources.

DEVELOPMENT OF AID IMPLEMENTATION SYSTEMS

Japan's aid implementation systems were gradually developed in line with the start of such provision of reparations and aid. First, the Society for Economic Cooperation in Asia was established in 1954 as the implementation agency for technical cooperation. Overseas Economic Cooperation Fund (OECF) was established in March 1961 as the implementation agency for yen loans. Overseas Technical Cooperation Agency (OTCA) was founded in 1962, and in 1974, OTCA became Japan International Cooperation Agency (JICA). Japan actively participated in the activities of international organizations as a donor country. In March 1960, Japan Joined the Development Assistance Group (DAG), and in 1961, when DAG was reorganized and became the Development Assistance Committee of the Organization of Economic Co-operation and Development (OECD-DAC), Japan joined as one of the founding member countries. Also, the Ministerial Conference for the Development of Southeast Asia, which was advocated by Japan, was held in 1966. Furthermore, Japan played a key role in the establishment of the Asian Development Bank (ADB).

During this period, international concerns over lagging development of developing countries mounted, as underscored by the Pearson Report of 1969 and the Tinbergen Report of 1970. In

1969, DAC-OECD introduced the concept of ODA, and in 1970, the General Assembly of the United Nations proposed donor countries to allocate 0.7% of their Gross National Product (GNP) to ODA. The first oil crisis erupted in 1973 hit the energy-scarce Japan hard and had an impact on its ODA with the result of increased aid distribution to Middle East countries since 1975.

From the late 1960s to the 1970s Japan gained a better reputation in the global arena as the country achieved dramatic economic development. Departing from war reparations, Japan's aid was increasing and its aid implementation systems were becoming more varied. A total of US\$115.8 million in 1964 grew to US\$1.1049 billion in 1976. In other words, Japan's ODA became 10 times larger during this period. As for aid systems, a food aid program started in 1968 and a grant aid program in 1969. The yen loan programs also introduced new kind of loans, such as a two-step loan and a loan-in-kind. A two-step loan is designed to provide financial assistance for small- and medium-sized companies and farmers as well as agricultural cooperatives. The loans are given through the recipient countries' development banking organizations. A loan-in-kind is designed to provide financial assistance to import commercial goods based on an agreement between Japan and its partner country and are used to support the partner country's trade balance and stabilize its local economy. In 1965, Japan Overseas Cooperation Volunteers (JOCV) was established.

Following the completion of the payment of reparations to the Philippines in 1976, Japan has announced five consecutive medium-term ODA targets covering the years from 1978 to date, under which it has increased its ODA step by step. During this period, Japan diversified its ODA in terms of aid sectors (Basic Human Needs (BHN) and human resources development in addition to economic infrastructure) and geographical distribution (Middle East, Africa, Latin America, and Pacific regions in addition to Asia).

As its ODA grew in magnitude and coverage, there has emerged in Japan toward the end of the 1970s a movement to redefine the philosophies and objectives of its ODA. Summing up the consensus view that had emerged from such debate, the Ministry of Foreign Affairs published in 1978 "The Current State of Economic Cooperation, and Its Outlook: The

North-South Problem and Development Assistance." In that book, the Ministry pointed out the following two points as significance of Japan's economic cooperation.

- ❖ Japan can insure its security and prosperity only in a peaceful and stable world. One of the most appropriate means for Japan to contribute to the peace and stability of the world is assistance to developing countries.

- ❖ Japan is closely interdependent with developing countries since it is able to secure natural resources only through trade with those countries. Therefore, it is essential to maintain friendly relations with developing countries for Japan's economic growth.

In a publication "The philosophies of Economic Cooperation: Why Official Development Assistance?" issued in 1980, the Ministry stated that Japan's economic cooperation is guided by two motives: "humanitarian and moral considerations" and "the recognition of interdependence among nations". It defined Japan's aid philosophies based on Japan's own experience and conditions" (having a peace Constitution, being an economic power, economically highly dependent on other countries, having accomplished modernization and a non-Western country) combined with aid rationales commonly held by donor countries. It concluded that providing ODA is a cost for building an international environment to secure Japan's comprehensive security.

Such philosophies and objectives of Japan's ODA have been pronounced by Japan on various occasions. Recognizing changes in international situations in recent years, the Japanese government in 1991 announced four ODA guidelines of its economic assistance to developing countries. More specifically, the government made clear that it will pay full attention to the trends of the military expenditures of recipient countries; the trends of their development and production of mass destruction weapons and missiles; their export and import of arms, and their efforts for promoting democratization and introduction of market-oriented economy, and the situation regarding the securing of basic human rights and freedoms.

The four ODA guidelines were pronounced based on the recognition that after the end of the cold war, there have developed worldwide efforts in developing countries for the democratization of their political process and

introduction of market economy system, and that the rising level of military spending and acquisition of mass destruction weapons by some developing countries are posing a serious threat to the peace and stability of the world as demonstrated by the eruption of the Gulf War. The four ODA guidelines were aimed at implementing Japan's official development assistance in a way that it encourages their democratization efforts and at the same time discourage military build-up in the developing countries. Incorporating the philosophies and objectives of Japan's foreign aid which have evolved over the years, the Cabinet adopted on June 30, 1992, Japan's ODA Charter. As basic philosophies of Japan's ODA, the ODA Charter lists humanitarian considerations, recognition of interdependence among nations of the international community, environmental consideration, and support for self-help efforts of recipient countries. The ODA Charter also lists the four principles which include above-mentioned four ODA guidelines for the implementation of its ODA. These basic philosophies and principles reflect Japan's position in the community of nations, the experience of economic development it had undergone, and the experiences it has acquired in the course of aid giving to developing countries over the past 40 years. As such, they represent a product unique to Japan, while incorporating international trends on foreign aid. The Japanese government is trying to faithfully follow these principles as a norm governing the conduct of Japan's foreign aid.

In Japan, ODA has traditionally been a bureaucratic domain, with little interest or involvement of other stakeholders, including political parties, NGOs, the media and civil society. This has meant that aside from business and commercial interests, ODA has lacked a clear domestic constituency favouring international development. Japan has a distinct model for its development assistance that is rooted in its own history and development trajectory; its commercial, political, economic and diplomatic motivations; and the organisational structure through which its ODA is allocated and disbursed. That model is based on several key components including:

- ❖ Principles: self-help; non-intervention; request-based assistance; development assistance as mutually beneficial (e.g. should help Japanese commercial interests);

- ❖ Modalities: greater focus on loans than on grants (reflecting the 'self-help' spirit); more projectised than programmatic aid; reliance on the procurement of Japanese contractors;

- ❖ Thematic priorities: a long tradition of investing in infrastructure and industrial production-related sector as the engines of growth, though Japan has tried to diversify its focus towards other areas, including governance and especially human security. Japan has also increasingly emphasised the importance of achieving poverty reduction not only through social service delivery, which is the approach taken by most other OECD-DAC donors, but also through economic growth;

- ❖ Geographic priorities: Very broad coverage across all regions (more than 140 countries), with a large focus on middle income countries. The historical focus has been on Asia, though Japan is increasingly committed to growing its presence in Africa;

- ❖ Partners: Japan is a generous supporter at both the bilateral and multilateral level. At the bilateral level, Japan engages almost exclusively with recipient governments and participates in fewer collaborative initiatives with other donors, in part because of a concern to maintain the visibility of its ODA. This has begun to change somewhat over the past decade.

RESEARCH DESIGN

The introduction of the ODA Charter in 1992 is seen as Japan's official pledge to pay more attention to political conditions in recipient countries and to impose political conditionalities on them. It was revised in 2003 to adapt to new realities. More than 10 years have since passed, with domestic and international circumstances having drastically changed. It was therefore time to again review the charter, and in doing so the government gathered opinions from experts, nongovernmental and other citizens' organizations, businesses, the media and so on. The new charter that was adopted in February 2015, reflects today's circumstances and new strategic approaches.

Immediately after the government's announcement on the new Charter, some quarters in Japan especially the civil society organizations (CSOs) made an urgent statement, focused on two recommendations; strictly adhere to "the Principle of Non-militarism" and

further strengthen cooperation with CSOs/NGOs of both developing countries and Japan to eradicate poverties and genuinely realize “Inclusive Growth.” Several things in the new charter are welcome from CSO perspective; inclusion of “Promoting Women’s Participation” as one of the principles, strengthening partnership with CSOs as one of the “implementation arrangements,” a mention on the internationally-agreed 0.7% ODA/GNI target and emphasis on development education and public engagement.

However, there is still sceptism about Japan's real intentions. Japan was also regarded as being reticent in fully complying with the DAC norms of ‘harmonisation’ which the Japanese tend to regard as ‘homogenisation’ and at odds with its strategy of innovation and flexibility. The idea of ‘harmonisation’ is often critiqued by Western approaches as representing ‘Asian values’ of conservatism and elite-led exclusion of different ideas (Watson 2014). In the new guidelines, the promotions of universal values such as human rights, democracy and freedom are set to become the new principles of Japan's aid policy. With this emerging new values, has Japan placed those values in the central theme of its foreign policy; or has Japan been using a convenient tactic to create the impression of the willingness to promote universal values, while in practice the Japanese government has continued using foreign aid as a diplomatic tool to pursue her own economic interests?

ANALYTICAL FRAMEWORK

The Japanese government makes considerable efforts to maintain Japan’s position as a leading donor of foreign aid. However, the quality of Japanese aid is often criticised. Some critics maintain that Japan’s ODA is used not so much to help developing countries, instead to advance Japan’s own interests. The government has repeatedly stressed the humanitarian aspects of foreign aid. However, in reality the allocations of the bigger part of Japan’s ODA are motivated by commercial interests, so that Japanese foreign aid induces profits for Japanese companies (Furuoka 2009).

A comparative analysis will be made between Japan and several other donor countries in order to gauge the quality of Japan’s aid in light of the international norms. There are different criteria to measure the quality of foreign aid.

Some indicators adopted from other literatures like grant share, grant element and ratio of untied aid were used as independent variables, while the aid effectiveness is the dependent variable.

After reading through some previous relevant literatures, the discussion can be divided into two main themes: aid effectiveness and social economic development. According to Elayah (2016), there are two contradictory perspectives regarding the justifications for granting aid and the effectiveness of aid programmes and projects: the People’s Interest Perspective (PIP) and the People’s Choice Perspective (PCP). There are three explanations regarding the ineffectiveness of foreign aid programmes which range from corruption, weak policies and fragile institutions in the recipient countries, the intended goals of the donors, and lack of domestic knowledge of foreigner experts working in donor organizations in order to make a change in the recipient countries. The PIP has greatly influenced the debate around the need to increase aid in order to eliminate poverty in poor countries through bridging the financial gap, and breaking the trap of poverty. This perspective offers basic necessities to the poor, increases their savings and enable the accumulation of capital that helps in achieving economic growth. The second perspective is the PCP that perceives targets of foreign aid as worthy, but is based on wrong development policies. Foreign aid is negatively connected with development in recipient countries, and the aid even causes harm instead of creating real development.

Corrupt environments, destructive development policies and corrupt regimes all contribute to explaining the disappointing performance of aid programmes in recipient countries. The issue of most donors still basing their aid on various targets and self-centred interests, including political, strategic, commercial, cultural and religious ones, poses a major problem. The problem relates to the fact that donors, while always keen to promote these targets and interests, conversely show little consideration by holding the recipient countries accountable when the aid objectives are not achieved. Moreover, that foreign aid programmes are offered and managed by bureaucrats interested in protecting their own existence. These bureaucrats have turned foreign aid programmes into a profitable business, especially now that an argument has emerged that even calls for the necessity of maintaining such a business. Donor

countries should take an approach that can ensure donor country's commitment in achieving the aid objectives. In this regard, loan aid is seen as more effective aid tool to bind commitment of the recipient countries because repayment will encourage them to carry out the development project more cautiously.

Niyonkuru (2016) maintains that aid is shrouded with hidden agenda from donors who set unbearable conditionality. The conditionalities attached to some of contacted economic bail out like from the International Monetary Fund (IMF) and World Bank (WB) to address economic crisis countries can face, it was rather seen as harmful to vulnerable citizens due to its stringent austerity measures and though it may bring about economic stabilization, no indices of economic growth and people's welfare could be measured. Despite diversified kinds of intervention of the non-governmental organizations and civil societies in their variety social services delivery like in health, mass education and mobilization, education, human rights preservation, their capacity to lead the country to macroeconomic growth were not evident as in their good work, face numerous barriers from both donors and governments recipients. Therefore, Niyonkuru suggests that other development entities such as non-profit making organizations should help countries invest in long term projects in full workable public-private partnership model while the state should avoid investing in both infrastructure and human capital, embark on monetary and fiscal discipline and create enabling environment for business and institutional administration for aid to produce good results. The suggestion made by Niyonkuru is quite practical as some critiques of ODA in general argue that the aid usually gives benefit to the already-rich community because of the intervention of the local politicians. More often than not, aid will not reach the poorer grassroot level.

Meanwhile, Bigsten and Tengstam (2015) present the effects of improved donor coordination on aid effectiveness. Reductions in transaction cost can be achieved by better donor coordination via concentration to fewer partner countries and a shift from project aid to program-based approaches. The Paris Declaration of 2005 outlined a strategy to make aid more efficient through the rationalization of donor behavior. This would be achieved by measures to increase recipient country ownership, to improve donor harmonization and

alignment with recipient policies, to manage aid according to results, and to enhance mutual accountability.

With regard to harmonization Bigsten and Tengstam find that major cost savings can be achieved if donors concentrate their aid efforts on fewer countries and focus on more general forms of aid transfers, such as general budget support. There may be political constraints on such a change, since it would mean that major donors would have to abandon certain countries, while they may feel that they have a political interest in showing presence there. To focus aid on more general forms of assistance may be politically easier, but donors are reluctant to go for general forms of aid when they are uncertain about recipients' quality of governance or their transparency. Major gains in terms of poverty reduction can also be achieved if donors coordinate their aid allocation across countries. But such a coordination of allocation would mean that countries would have to abandon some partner countries with which they would like to maintain links, which makes it hard to find political support in the major donors for such a move. Two closely related dimensions of reform are ownership and alignment. Donor coordination and more general forms of aid should make alignment easier and lead to increased ownership.

There is at least a presumption that this could lead to faster economic growth and thus more rapid poverty reduction. Transparency is required if donors are to be willing to shift to more general forms of aid, which would mean a higher degree of ownership. What is required is, first and foremost, that the budget process is transparent so that the flow of funds through the government can be followed. It is clear that this is important for the effective functioning of government, but there is little evidence as to how donor coordination affects this. This would depend on how donor coordination affects the incentives on the recipient side.

On the part of social economic development, foreign aid has a significant effect on poverty reduction, by reducing infant mortality rate and increasing household consumption expenditure (Woldekidan 2015). On the other hand, its impact found to be negative when poverty is measured by gross primary enrolment ratio. Nonetheless, when augmented by macroeconomic policy index the impact turned to be positive and there is a diminishing return to the inflow of foreign aid. Woldekidan also

found out that economic growth has a significant contribution for poverty reduction, while poor quality of governance exacerbates poverty. Thus, to achieve the poverty reduction objectives, measures must be taken in the area of aid allocation, quality of governance and macroeconomic policies that can ensure sustainable economic growth.

The failure to meet the social economic development objective could also attributed by the improper distribution of the aid. According to Briggs (2015), within countries, aid disproportionately flows to regions with more of the richest people. Aid does not favor areas with more of the poorest people. These results suggest that donors are not able to realize their preferences for a pro-poor distribution of aid and that aid is not being allocated effectively to alleviate extreme poverty. This finding shows to us that there is so much political intervention even in this essential issue of poverty eradication. This is why continuous international aid contribution is still unable to address such issues as poverty, health, and education. Therefore, the principle of partnership with the local NGO is very important in order to ensure that aid could reach to the target group. The role of NGO has proven to be effective because it has a wide range of networking.

DISCUSSIONS AND ANALYSIS

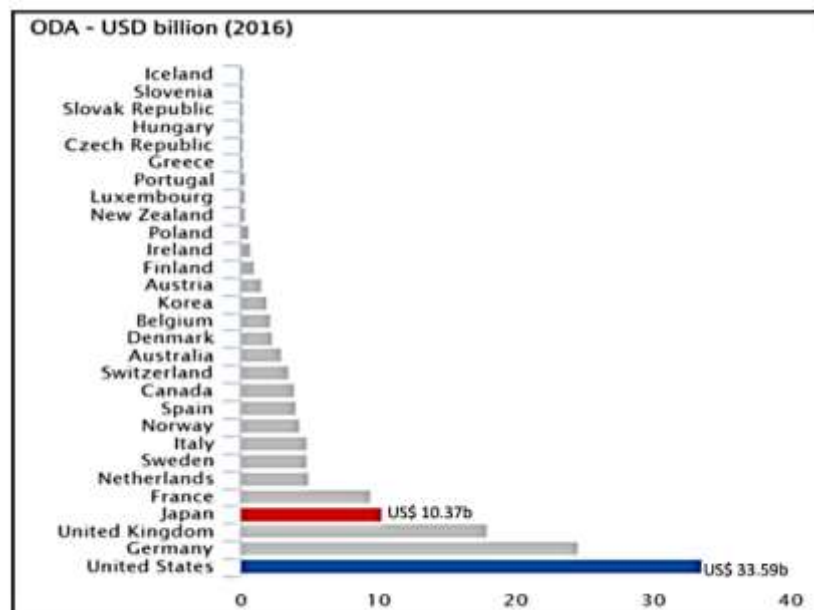
Analysis of Japan's ODA can be discussed in several different perspectives; the amount of Japan's ODA, ODA ratio to GNI, geographical distribution of ODA, grant share and grant element, and ratio of untied aid.

The Amount of Japan's ODA

The amount of Japan's ODA is impressive. In 1989, Japan topped the US as the biggest donor of foreign aid, though in the following year the US regained the position. In 1991, Japan once

again became the biggest donor of foreign aid and remained such for ten consecutive years (1991-2000). This position was lost to the US in 2001, when total ODA given by Japan was the second to the ODA provided by the US. The fact that Japan could maintain the top donor's position for several years did not mean that there had been no "aid fatigue". For instance, the amount of Japan's ODA decreased from US\$14.70 billion in 1995 to US\$9.58 billion in 1996. This decrease is as a sign of aid fatigue. Due to the prolonged economic recession in Japan, the government made budget cuts and the budget for foreign aid is not an exception (Furuoka 2009). The government cut its ODA expenses by 17.9 percent and 15.1 percent in 1999 and 2000, respectively. As a result, Japan's ODA declined from US\$15.32 billion in 1999 to US\$13.06 billion in 2000. By contrast, the second biggest donor of foreign aid, the US, increased its foreign aid from US\$9.14 in 1999 to US\$9.50 in 2000. Similarly to Japan's ODA, the total amount of foreign aid provided by DAC decreased from US\$ 56.44 billion in 1999 to US\$53.05 billion in 2000. This decline could be explained by the cut of ODA expenses by two leading aid donors, Japan and France.

Recent data shows that the Japan's ODA is still ranked among the top five donor countries in the DAC list. The preliminary data indicates Japan's net disbursement for 2016 amounted US\$10.37 billion which is ranked as the fourth in the list. This list led by the US with net disbursement amounted US\$33.59 billion, followed by Germany and United Kingdom (see Figure 3.1). Since Japan joined DAC 55 years ago, its ODA has grown over the years. With its first ODA amounted US\$1.20 billion in 1960, Japan's ODA in 2016 recorded a 764.16 percent increment. Throughout the period, Japan's ODA reached its peak in 2005 with total aid amounted US\$ 11.27 billion. Meanwhile, US's ODA only recorded a 90.9 percent increment over the period of 55 years of participation in DAC (see Figure below)



Source: OECD



Source: OECD

ODA Ratio to GNI

In 1958, discussions of official aid targets were based on total flow of both official and private resources going to developing countries. A target of one percent was first suggested by the World Council of Churches and during the 1960s all DAC members subscribed to it. But it had a major flaw: governments cannot control or predict private capital flows, nor can they adjust official flows to compensate for fluctuations in private flows. Efforts to correct this concentrated on elaborating a sub-target for official flows.

A target of official flows of 0.75 percent of gross national product was proposed to be reached by 1972, based on work by Nobel-Prize winning Jan Tinbergen, who estimated the inflows required for developing economies to achieve desirable growth rates. In 1969, the Pearson

Commission – in its report *Partners in Development* – proposed a target of 0.7 percent of donor GNP to be reached by 1975 and in no case later than 1980. This suggestion was taken up in a UN resolution on 24 October 1970. The target built on the DAC's 1969 definition of ODA.

DAC members generally accepted the 0.7 percent target for ODA, at least as a long-term objective, with some notable exceptions: Switzerland – not a member of the United Nations until 2002 – did not adopt the target, and the United States stated that it did not subscribe to specific targets or timetables, although it supported the more general aims of the Resolution. With the revised System of National Accounts in 1993, gross national product was replaced by gross national income (GNI), an equivalent concept. DAC members'

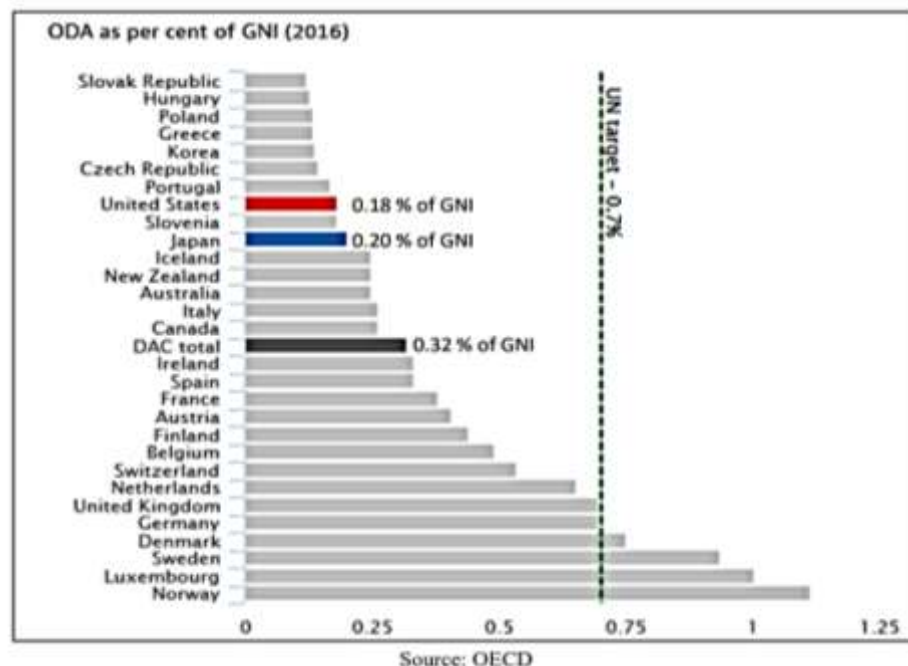
performance against the 0.7 percent target is therefore now shown in terms of ODA/GNI ratios. Level of global aid flows have varied considerably over the years. During the 1960s global aid volumes did not grow substantially. As for the GNI, in 1994 OECD countries averaged only 0.30 percent, the lowest in 21 years and far from the international standard of 0.70 percent (Bowen 1998).

Japan is committed to keeping its ODA level stable in dollar terms, despite a large depreciation of the Yen. Japan's net ODA in 2013 amounted to USD 11.8 billion - 36.6 percent from 2012 due to debt forgiveness for Myanmar and increase in ODA loans. Japan moved up one place to become the fourth largest DAC donor, greatly improving its ODA to GNI ratio to 0.23 percent (2013) from 0.17 percent (2012). In 2016, Japan's net disbursement of ODA is still below the UN's target of 0.7 percent of GNI. Ironically, the US as the biggest DAC donor country was ranked two levels below Japan as its net ODA disbursement recorded at 0.18 percent of its GNI. Of all DAC members,

only six states have reached UN's 0.7 percent of GNI which are Norway (1.1 percent), Luxembourg (1.0 percent), Sweden (0.94 percent), Denmark (0.75 percent), Germany and United Kingdom are 0.70 percent each. Meanwhile, the total average of DAC members net ODA disbursement is 0.32 percent only (see Figure below).

Geographical Distribution of ODA

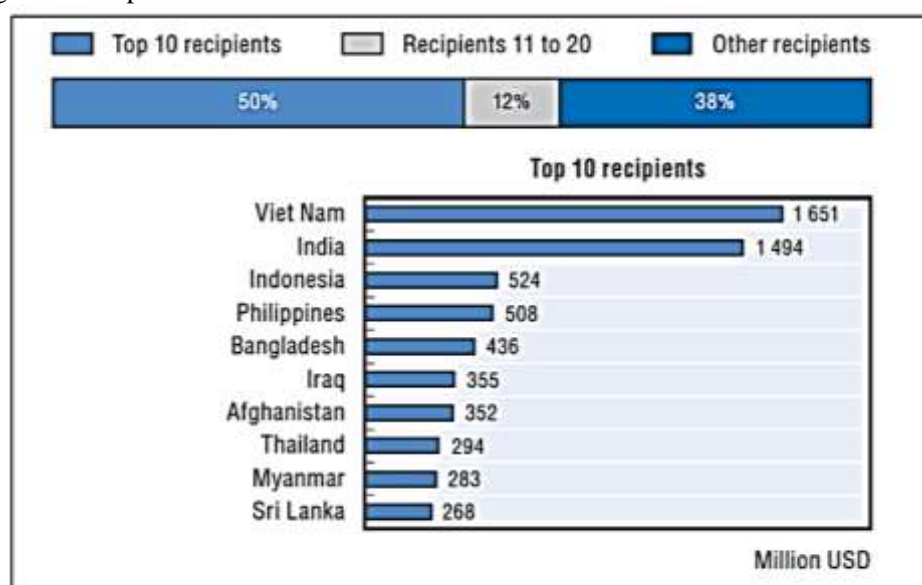
A prominent characteristic of Japan's ODA is that Asia, especially East Asian countries, receives the biggest share of Japanese aid. In 2015, 28 percent of Japan's ODA was allocated to south and central Asia and 31 percent to Far East Asia. Meanwhile, Sub-Saharan African region received 11 percent of Japan's bilateral ODA, Middle East and North Africa eight percent, Latin America and Caribbean region four percent and Europe received only two percent. The remaining 16 percent of bilateral ODA allocated was unspecified by region in 2014-2015.



In 2015, 49.5 percent of bilateral ODA went to Japan's top 10 recipients (see Figure 3.4). In line with its stated use of ODA as a diplomatic tool, Japan has a bilateral programme in over 140 countries. In 2011-2012, 37 percent of Japanese bilateral ODA went to five recipient countries and 66 percent to the top 20 recipients. Japan's support to fragile contexts reached USD 3.6 billion in 2015 (29.7 percent of gross bilateral

ODA). In 2015, 21.6 percent of bilateral ODA was provided to least developed countries (LDCs), amounting to USD 2.6 billion. This is an increase from 2014 (19.2 percent), but remains lower than the 2015 DAC country average of 24.3 percent. Lower middle-income countries received the highest share of bilateral ODA in 2015 (44.8 percent). At 0.08 percent of

GNI in 2015, total ODA to LDCs was lower than the UN target of 0.15 percent of GNI.



Source: OECD

To compare, the US distributed its bilateral foreign aid with more focus on the African region. The largest share of bilateral ODA was directed to sub-Saharan Africa. In 2015, US\$ 9.5 billion (34 percent) was allocated to sub-Saharan Africa, US\$3.4 billion (13 percent) to south and central Asia, and US\$ 2.6 billion (11 percent) to the Middle East and North Africa. Similar to the US, other donors gave more foreign aid to African countries. For example, one of the leading aid donors, France had a primary focus on sub-Saharan Africa, South America and North Africa. In 2015, France allocated US\$ 2.4 billion (34 percent) to sub-Saharan Africa, US\$ 954.3 million (16 percent) to South America and US\$ 748.7 million (16 percent) to North Africa. As another example, United Kingdom's bilateral ODA was primarily focused on sub-Saharan Africa. In 2015, US\$ 3.9 billion (34 percent) was allocated to sub-Saharan Africa and US\$ 2 billion (17 percent) to south and central Asia.

Grant Share and Grant Element

Regarding the quality of foreign aid, bilateral grants are generally considered more favourable for aid recipients than bilateral loans because grants do not require reimbursement. In other words, if the share of grants - Grant Share (GS) - in the total ODA is higher, the quality of foreign aid is better. In 1997, GS of Japan's ODA was 39.6 percent, while the DAC's

average rate of GS that year was 77.8 percent. Among DAC members, the Scandinavian countries, Australia and New Zealand had a very high GS, almost 100 percent. Germany's and France's GS were nearly 80 percent. These figures show that Japan's GS has been one of the lowest among DAC members.

Another indicator of aid quality is the Grant Element (GE) which measures the quality of foreign aid in terms of interest rate, grace period and maturity. A higher GE ratio in the country's foreign aid indicates a better-quality aid. A lower ratio of GE in the total ODA makes aid less desirable for recipient countries (Furuoka, 2006). The GE of Japan's ODA in 1997 was 78.6 percent and one of the lowest of the DAC. Australia and New Zealand give only grants - and no aid loans. Therefore, their GE is usually 100 percent. Foreign aid by Norway, Sweden and Finland also has almost 100 percent GE. The DAC criticised the low GS and GE of Japan's ODA and urged the Japanese government to improve the condition of foreign aid by providing more bilateral grants. The Japanese government insists that low GS and GE do not mean that contributions bring comparatively little benefit to recipient countries. For example, the absolute value of Japan's grants in 1994 was US\$8.98 billion; this amount surpassed total ODA by France (MOFA, 1996: 24). Grants are better than loans because aid recipients tend to waste bilateral grants which they consider "free

gifts” while they spend bilateral loans more cautiously because bilateral loans require repayment. By providing bilateral loans, as opposed to bilateral grants, Japan exercises aid philosophy that stresses the spirit of “self-help” by aid recipients. Over the last decade, the share of grants in gross ODA to the group of least developed countries fell slightly – from 96 percent of gross bilateral ODA flows from DAC donors in 2005 to 93 percent in 2015. Japan's contribution to least developed countries fell from 82 percent (2005) to 66 percent (2015).

Ratio of Untied Aid

Another important criterion for the quality of foreign aid is the ratio of untied aid. While tied aid means that loans or grants have to be spent on the purchase of the donor's goods and services, untied aid does not have such conditions (Todaro, 2000: 591). Untied aid is more favourable for the recipient countries than tied aid because the latter tends to be commercially motivated and promotes the donor's interests by depriving local business of the chance to provide goods and services for aid programs (Browne 2006). However, the ratio of untied aid does not always indicate the absence of commercial interest in a donor's aid program. The French government provides foreign aid to teach the French language and though this aid is classified as tied aid, it is not commercial. On the other hand, a donor can manipulate the bidding procedure for untied aid to ensure the desired outcome (Arase, 1995: 2-3).

The Japanese government has been making efforts to increase the amounts of untied aid. Since the Japanese government announced its position in the Japan-U.S. joint communiqué in 1978, the untied portion (of Japanese ODA) has increased steadily. Subsequently, Japan's untied aid ratio became one of the highest of the DAC. Though the Japanese government has done a good job and increased the ratio of untied aid in Japan's ODA, apparently, it prefers to give untied loans rather than untied grants. In 1996, 100 percent of Japanese loans were untied loans, while only 47.6 percent of grants were untied. Japan is not the only donor country with a higher share of tied grants in the total amount of grants, and other aid donors also provide tied grants. Although Japan's ODA has been criticized for protecting the interests of Japanese companies, but the reality is misinterpreted. They argue that after Japanese companies acquired the needed competitiveness with international companies,

the government stopped favouring Japanese firms and began to give contracts to foreign companies. As a result, the untied loans ratio of Japan's foreign aid increased. MOFA's attempts to increase the ratio of untied aid met strong opposition from MITI.

Apparently, there is an inter-ministry conflict between MOFA, that supports an untied aid policy, and MITI, that prefers giving tied aid. Japanese companies and MITI strongly object to MOFA's “General Untied Aid Policy” which aims to improve the quality of aid. The Japan Economic Institute Report states that MITI actively promotes tied foreign aid. For example, a MITI-related council recommends that more tied aid should be considered within OECD rules in order to promote economic co-operation using Japanese technology. MOFA strongly opposes this idea. This proposal drew fire from the Foreign Ministry on the grounds that increasing tied aid not only would trigger a backlash in the international community but also would reverse the direction of the post-1988 reform of Japan's ODA program. MITI has been reluctant to increase untied aid because it is aware that Japan's commercial interests would suffer. However, there exists another obstacle of a different nature. After MITI had finally agreed to allow developing countries to join international tenders to bid for aid procurements for untied aid, developing countries could not win the bid because they either had not enough expertise or were unable to provide cheaper goods of better quality (Furuoka 2009).

CONCLUSION

The introduction of the ODA Charter in 1992 can be seen as Japan's official pledge to pay more attention to political conditions in recipient countries and to impose political conditionalities on them. However, in practice, the Japanese government has continued using foreign aid as a diplomatic tool to pursue own economic interests. In term of quantity, the amount of Japan's ODA is impressive. In 1989, Japan topped the US as the biggest donor of foreign aid among all aid donor countries. Despite the impressive quantity of Japanese foreign aid, the ratio of Japan's ODA to GNP in 1999 was 0.27 percent, which was lower than the average ODA ratio to GNP among DAC members (0.39 percent). Denmark was the country with the

highest ratio (1.06 percent) followed by the Netherlands (0.82 percent).

In term of geographical distribution, a prominent characteristic of Japan's ODA is that Asia, especially East Asian countries, receives the biggest share of Japanese aid. Far East Asia received 54.5 percent of this amount, and South and Central Asia received 19.2 percent. African countries in the South of the Sahara were left far behind receiving only 9.5 percent of total Japanese bilateral aid, while the African countries in the North of the Sahara received only 2.1 percent. Furthermore, Grant Share (GS) of Japan's ODA was 39.6 percent, while the DAC's average rate of GS that year was 77.8 percent. Among DAC members, the Scandinavian countries, Australia and New Zealand had a very high GS, almost 100 percent. Germany's and France's GS were nearly 80 percent. These figures show that Japan's GS has been one of the lowest among DAC members. Also, Japan's untied aid ratio became one of the highest of the DAC.

As a way forward, it is important to look at the future of Japan as a major ODA contributor. Barring the accession to power of a new reform-minded political elite willing to take Japan in new direction will not allow Japan to be the world's leading ODA contributor. The good fit of ODA into the constraints of Japan's overall foreign policy suggests that ODA will remain a central focus in its diplomacy, although this may not mean an earnest embrace of the new ODA consensus articulated by the Millennium Declaration and the Monterrey Conference (Arase 2005). Given the broader and deeper international consensus on the need to increase the quality and effectiveness of ODA, however, Japan has to do something in this new direction if it hopes to get any appreciation for its ODA effort. For example, the change of leadership in JICA has contributed to Japan's ODA transformation. JICA was freed from MOFA's formal supervision in October 2003. MOFA will no longer have the authority to put its own officials in key positions to supervise detailed operations. In addition, a dynamic leader of JICA has been found in Sadako Ogata, who is an academic with a decade of experience as the UN High Commissioner for Refugees. She has set an ambitious reform agenda based more on humanitarian principles than on narrow concerns for national advantage, which will test the limits of JICA's new independence. In particular, she emphasized the need for better and more

effective field presence by passing decision making powers down to new regional centres and local field offices, and shifted personnel from headquarters duties to field duties, so that half, instead of 30 percent, of the staff will be in the field.

She also sharpened the focus on poverty alleviation, NGO partnerships, and peace-building and post-conflict recovery. Africa is an area of emphasis of JICA under her direction. She also pushed for more capacity building programs at the community level, and this will require the development of new technical cooperation schemes. It should be evident that the direction she is advocating clearly takes the MDGs to heart and deviates from the spirit of ODA Charter. If Ogata is successful in establishing this new role and identity for JICA, many of the criticisms voiced by the international community will be addressed.

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BIOGRAPHICAL NOTE

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