

(8) International Cooperation

8-1) Overview of Japan's Assistance to Developing Countries

8-1-1) History, Categories and Responsible Organisations

a) History of Japan's Assistance

Japan's Official Development Assistance (ODA) began in 1954 when it joined the Colombo Plan, an organisation set up in 1950 to assist Asian countries in their socio-economic development.

Whilst receiving aid itself in the 1950's from the World Bank for the reconstruction of its own economy, Japan began the process of delivering aid to developing countries. Since that time, Japan's ODA commitment has increased and expanded yearly. With this expansion, there has also been gradual move to include countries outside Asia-countries in Eastern and Central Europe being the most recent additions.

Today, Japan stands as the top donor in the world in terms of net ODA disbursement and in 1992, it was the major donor in 25 countries.

b) What is ODA ?

Economic cooperation is carried out from a humanitarian perspective with a view to working towards the solution of poverty, starvation and other circumstances which threaten the lives of people in developing countries, and also on the basis of an awareness of the importance of interdependence, i.e. the realisation that economic and social development and security of developing countries are essential for global peace and prosperity.

Economic cooperation is not restricted to official development assistance provided by the governments of developed countries. It may be provided between developing countries themselves, by international organisations, by private companies or by non-governmental organisations (NGO) and other voluntary bodies. It is thus implemented by a wide variety of organisations and its form and content differ accordingly.

Official development assistance (ODA) falls within the category of economic cooperation and denotes the funds and technology supplied by national governments to developing countries.

In 1964 the Development Assistance Committee (DAC), which forms a part of the Organisation for Economic Cooperation and Development (OECD), issued a set of recommendations concerning the conditions under which aid should be provided. It defined economic cooperation as "the flow of funds to developing countries" and classified it into three sectors, namely ODA, other official flows (OOF), and private flows (PF).

The DAC defines ODA as aid fulfilling the three conditions given below. These conditions

have in recent years been supplemented by a fourth, namely the provision of aid by NGOs.

- 1) The aid should be supplied to developing countries or to international organisations by governments or the implementing organs of governments;
- 2) The main purpose of the aid should be to contribute to economic development and welfare improvements in developing countries;
- 3) The grant element of any financial cooperation should be at least 25 percent.

*Grant element: Index of the softness of the terms of aid. The softer the terms of the loan (interest, repayment period, grace period), the larger the grant element.
A grant is 100 percent.

c) Categories and Responsible Organisations

Japan's ODA has three main categories:

- 1) Bilateral Grant (Grant Aid and Technical Cooperation),
- 2) Bilateral Loans (Loan Assistance, generally known as "Yen Loans") and,
- 3) Contributions and subscriptions to multilateral donor organisations.

The major portion of bilateral grants is undertaken by the Japan International Cooperation Agency (JICA), while the Overseas Economic Cooperation Fund (OECF) is in charge of bilateral loans.

* In October 1999, the new Japan Bank for International Cooperation (JBIC) will be established by the merger of OECF and the Export-Import Bank of Japan (JEXIM). This economic cooperation agency will be on a par with the World Bank Group in its outstanding balance loans and investment finance.

Japan International Cooperation Agency (1996): An Introduction to JICA

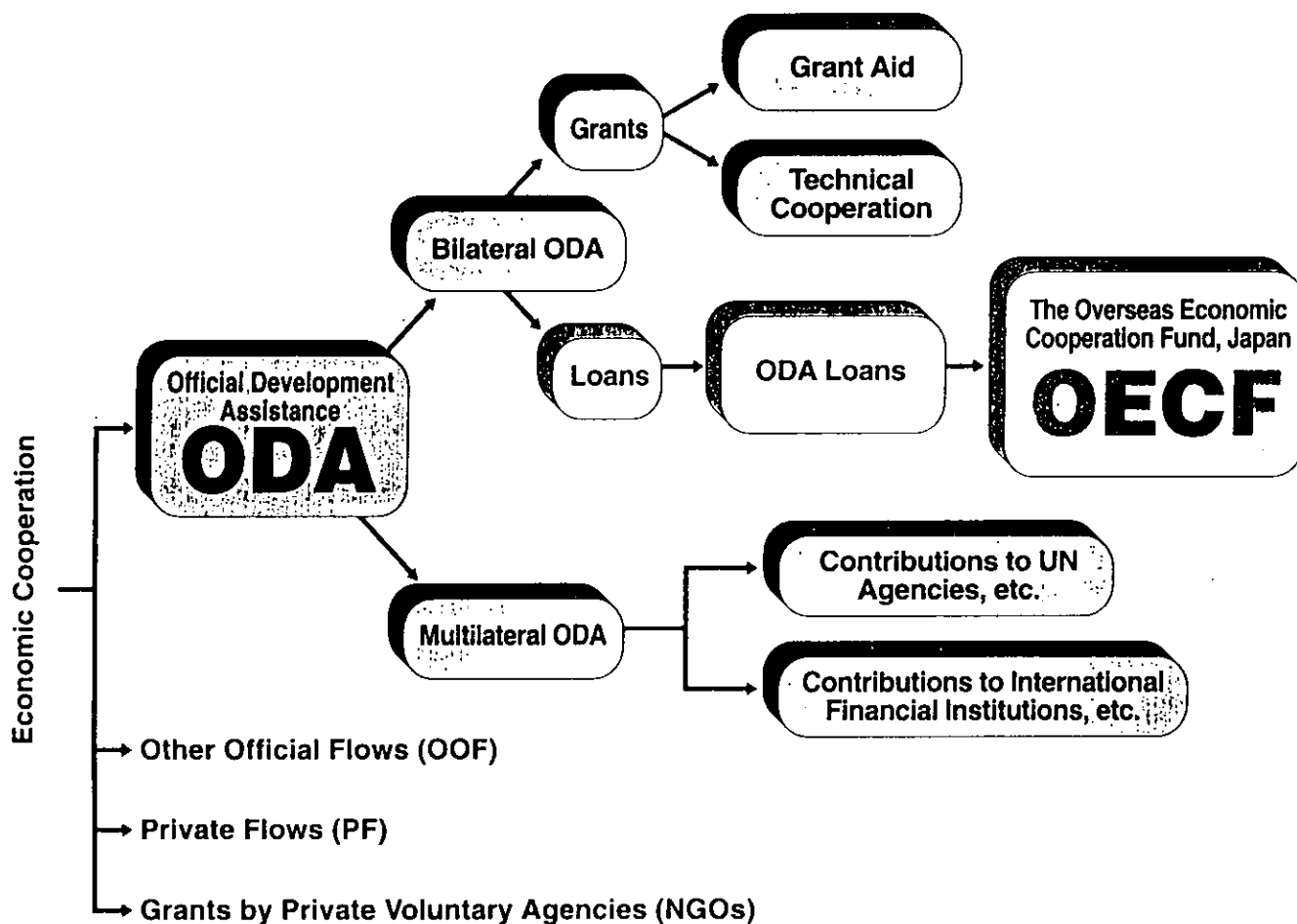
Japan International Cooperation Agency (1998): Japan International Cooperation Agency Annual Report 1998

Shinozawa K. (1998): From OECF to the Japan Bank for International Cooperation (JBIC), OECF Japan News Letter (Aug. Sep. 1999), Overseas Economic Cooperation Fund

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The Position of ODA in Japan's Economic Cooperation

The Position of ODA in Japan's Economic Cooperation



The Overseas Economic Cooperation Fund, Japan (1997): ODA Loan Today

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8-1) Overview of Japan's Assistance to Developing Countries

8-1-2) Budget and Achievement

a) The ODA Budget and the System of Implementation

The Japanese ODA budget (general account) has hitherto been allocated to and controlled by nineteen government ministries and agencies, namely the Prime Minister's Office, the National Police Agency, the General Affairs Agency, the Economic Planning Agency, the Science and Technology Agency, the Environment Agency, the National Land Agency, the Ministry of Justice, the Ministry of Foreign Affairs, the Ministry of Finance, the Ministry of Education, Science and Culture, the Ministry of Health and Welfare, the Ministry of Agriculture, Forestry and Fisheries, the Ministry of Transport, the Ministry of Post and Telecommunications, the Ministry of Labour, the Ministry of Construction, and the Ministry of Home Affairs. However, in FY 1998, a comprehensive realignment was made over and above areas of jurisdiction in order to maximise the effects of ODA. Rearrangement of the ODA budget under the control of the Prime Minister's Office and the Ministry of Home Affairs resulted in allocation of the budget to seventeen ministries.

The general account ODA budget for FY 1998 amounted to 1,047.3 billion yen for the government as a whole. Of this figure, the Ministry of Foreign Affairs was responsible for 556.8 billion yen, of which the portion allocated to JICA amounted to 176.2 billion yen, or 31.6 percent of the Ministry of Foreign Affairs budget.

The bilateral technical cooperation budget for FY 1998 was 350.7 billion yen, of which JICA was responsible for 50.2 percent.

b) Japan's ODA: achievements and tasks

The total value of ODA provided by the 21 DAC member states in 1997 amounted to 47.58 billion dollars, down by 14.2 percent from the previous year. The total amount of ODA provided by Japan was 9.358 billion dollars. This figure represents 19.7 percent of the total DAC figure and makes Japan the main donor within DAC. There was, nevertheless, a decrease of 0.9 percent from the previous year's figure of 9.43923 billion dollars. But the extensive fall in the amount of aid provided by other leading countries meant that Japan continued to maintain the position it has held since 1991 as the leading donor country.

On the other hand, in terms of the proportion of GNP devoted to ODA, the Japanese figure is only 0.22 percent, placing Japan nineteenth among the 21 DAC nations.

The grant element and the grant ratio are considered to be among the main indices of the quality of aid. The figures for Japan remain low among the DAC nations as a whole and

improvements are required.

Japan International Cooperation Agency (1998): Japan International Cooperation Agency
Annual Report 1998

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8-1-2) Budget and Achievement

Japan's ODA in 1997

Japan's ODA in 1997

Type of aid		Aid given		In dollars (\$m)		In yen (100m yen)		Constituent ratios (%)		
		Amount	Change from previous year (%)	Amount	Change from previous year (%)	ODA total	Bilateral			
ODA	Bilateral ODA	Grant aid (excluding Central and Eastern Europe and graduate nations)	2,017.98	-15.8	2,441.75	-6.3	21.4	30.5		
			2,014.81	-12.8	2,437.92	-3.1	21.5	30.8		
		Technical cooperation (excluding Central and Eastern Europe and graduate nations)	3,021.03	-5.0	3,655.45	5.6	32.0	45.7		
			2,969.78	-5.0	3,593.43	5.6	31.7	45.3		
		Total (excluding Central and Eastern Europe and graduate nations)	5,039.01	-9.6	6,097.20	0.5	53.4	76.2		
	4,984.58		-8.3	6,031.34	1.9	53.3	76.1			
	Government loans, etc. (excluding Central and Eastern Europe and graduate nations)	1,573.58	-43.4	1,904.03	-37.1	16.7	23.8			
		1,567.59	-43.4	1,896.78	-37.1	16.8	23.9			
	Bilateral total (excluding Central and Eastern Europe and graduate nations)	6,612.59	-20.9	8,001.23	-12.0	70.1	100.0			
		6,552.17	-20.2	7,928.12	-11.2	70.0	100.0			
Subscriptions and contributions to international organizations (excluding contributions to EBRD)	2,822.67	125.5	3,415.43	150.7	29.9					
	2,805.88	127.7	3,395.11	153.2	30.0					
Total (including Central and Eastern Europe, graduate nations and EBRD)	9,435.26	-1.8	11,416.66	9.2	100.0					
	9,358.04	-0.9	11,323.23	10.2	100.0					
% of GNP (including Central and Eastern Europe, graduate nations and EBRD)	GNP (provisional) (1 billion dollars, 1 billion yen)	4,245.78		513,739.00						
	0.22	-8.6	0.22	1.7						
(excluding Central and Eastern Europe and graduate nations)	0.22		0.22							

* DAC exchange rate for 1997: 1 dollar = 121.00 yen (weakening 12.18 yen from 1996)

* Due to rounding off of figures, subtotals for each category may not tally with the total.

* EBRD: European Bank for Reconstruction and Development. Assists the countries of the former Soviet Union and Central and Eastern Europe to effect the transfer to a market economy.

* Aid graduate countries (1996): Bahamas, Brunei, Kuwait, Qatar, Singapore, United Arab Emirates.

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8-2) ODA Schemes

8-2-1) Grant Aid

a) General Overview

Grant aid is the provision of funds without obliging the developing country recipients to repay them.

This type of aid is principally given to developing countries with relatively low per capita incomes. A specific country's eligibility for grant aid is determined after conducting needed surveys and taking its economic and social development situation, its development requirements, its bilateral relations with Japan, and the nature of the aid request into consideration. The standards of eligibility for interest-free loans from the International Development Association (IDA) are also among the criteria used when deciding a country's eligibility; in FY 1998, countries whose per capita GNP in 1995 was \$1,505 or less were considered eligible for grant aid. (The cut-off point for eligible for grant aid for cultural activities, however, is a per capita GNP of \$5,295 according to World Bank statistics.)

The sectors covered by grant aid are basically areas of low profitability, where loans would be difficult to obtain, and address such basic human needs (BHN) as medicinal and health care, hygiene and sanitation, water supply, primary and secondary education, environmental protection, rural and agricultural development, etc., as well as human resource development.

b) General Grant Aid

1) Grant aid for general projects

Grant aid for general projects is grant aid in a wide variety of sectors. The relevant sectors are classified broadly as medical care and health, education and research, agriculture, improvement of living standards and the environment, and telecommunications and transportation. However, even in areas where primarily ODA loan assistance has been applicable, such as the construction of roads, bridges, ports, telecommunications, and other economic infrastructure, Japan is taking into account the deterioration of economic infrastructure in developing countries, especially in the LLDCs, in an effort to adjust the application of grant aid according to individual countries' circumstances, and as a result, the sectors to which general grant aid is applicable are diversifying.

2) Grant aid for debt relief

3) Non-project grant aid for structural adjustment support

4) Grant assistance for grassroots projects

Grant assistance for grassroots projects is a scheme of assistance in response to requests from

developing countries' local public bodies, research and medical institutions, and NGOs and similar groups active in developing countries. It was difficult to deal with such small scale projects via grant aid arranged between central governments as it was done formerly. Grant assistance for Grassroots Projects is administered swiftly and appropriately by Japanese embassies and consulate-generals, whose staff are well acquainted with the economic and social conditions in each developing country, which allows Japan to respond better to the diversity of needs in developing countries.

c) Grant Aid for Fisheries

d) Emergency Grant Aid

e) Grant Aid for Cultural Activities

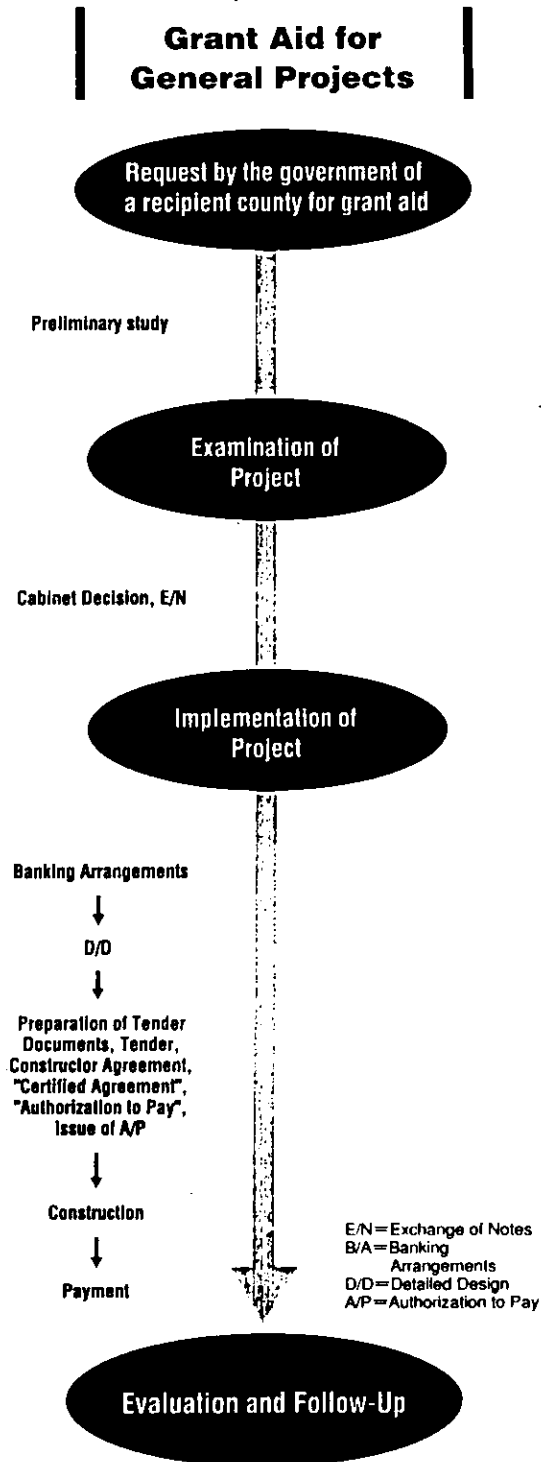
Grant aid for cultural activities began in FY 1975 as part of Japan's international cooperation efforts in the field of cultural exchanges. In addition to concern for a society's economic development, concern has also grown over the maintenance and fostering of developing countries' and regions' unique cultures. Developing countries are making efforts to achieve balanced national development from a broader point of view, including cultural aspects; Japanese grant aid for cultural activities assists these efforts. Specifically, this aid provides funds needed to preserve and make good use of cultural assets and relics, to hold public exhibitions and performances related to cultural affairs, and to buy equipment and supplies to foster education and research in developing countries and regions. The maximum grant is set at ¥50 million per project.

f) Food Aid

g) Aid for Increased Food Production

Ministry of Foreign Affairs (1998): Japan's ODA 1998, Association for Promotion of International Cooperation

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Japan International Cooperation Agency :Japan's Grant Aid & ICA -As a Leading Contributor to the World-

(8) International Cooperation

8-2) ODA Schemes

8-2-2) Technical Cooperation

a) General Overviews

Technical cooperation is aid whose aim is to develop the human resources that lay the foundations of developing countries' efforts to build their nations. The object is, by transmitting Japan's technology and knowledge to "counterparts"-people who will play leading roles in their respective fields in recipient countries-to spread that technology widely in those developing countries and contribute to their economic and social development. Presently, technical cooperation extends over a wide variety of fields, from BHN, such as providing access to medical care and drinking water to high-level cooperation in transferring computer technology and in drafting legislation and establishing state institutions.

Technical cooperation is based on agreements between the Japanese and recipient governments and is carried out by the Japan International Cooperation Agency (JICA). Other technical cooperation programmes carried out with public funding include exchange programmes for foreign students from developing countries operated at state expense, surveys and studies carried out by Japanese ministries and agencies and their extensions in cooperation with governmental organisations of developing countries, and training programmes operated by local governments as well as government-subsidised technical cooperation implemented by non-governmental organisations (NGOs).

Technical cooperation is given to countries that are ineligible for grant aid or ODA loan assistance either because they have relatively high income levels or because their heavy indebtedness makes them ineligible for loans.

b) Programmes for Accepting Trainees

Accepting trainees from developing countries is one of the most basic types of technical cooperation.

Promising trainees destined to play important roles in developing countries' nation-building efforts are invited to Japan or to certain other developing countries for training. This training gives them specialised knowledge and technology in a wide variety of fields, ranging from public administration to agriculture, forestry, fisheries, mining, manufacturing, energy, health and medical care, transportation, and telecommunications. In recent years, training has also covered such areas as the transition to a market economy and the establishment of juridical institutions.

Third-country training programmes are carried out in relatively developed developing

countries where the technology that was transferred via Japanese technical cooperation has taken root and where, through Japanese financial assistance and further technical cooperation, recipients can pass on what they have learned to trainees from neighbouring countries. This arrangement has the advantage that training can be more closely tailored to realities in developing countries and those different levels of familiarity with technology, language barriers, and customs can be taken better into account.

In-country training programmes began in FY 1993; they help people from developing countries who received training in Japanese technical cooperation programmes to transmit their technology and knowledge to a wider circle of officials and engineers from their own country.

c) Youth Invitation Programme (Friendship Programme for the 21st Century)

In 1984, the Youth Invitation Programme began with an aim of inviting developing countries' junior leaders in their country's nation-building efforts to visit Japan for one month, during which they receive training in their speciality and homestay in different parts of Japan; through these broad-based contacts with Japanese connected with the programme, these young people deepen their understanding of Japan and forge friendships with the Japanese people. Participants, both men and women, range in age from 18 to 35; they are picked by recommendation of their government, and belong to different professional categories, including public officials, educators, farmers, urban workers, and other groups.

d) Expert Dispatch Programme

Japan's programme for sending individuals with expertise to developing countries where they carry out technical cooperation in a variety of fields, mainly as technical advisers in government organisations, is another type of the most basic types of technical cooperation, together with the trainee acceptance programme.

Experts provide guidance in an extremely wide range of fields from technical advice on agriculture, mining and manufacturing, transportation, electricity and communications to advice on improving legal systems and anti-pollution measures especially in recent years with the emergence of more market economies.

e) Independent Equipment Supply Project

The independent equipment supply project is implemented within the framework of technical cooperation. Through it, Japan supplies equipment needed by Japanese experts, JOCV team members, and Senior Overseas Volunteers in the process of technology transfer in their country of assignment, or equipment needed by non-Japanese trainees to disseminate the technology they acquired during their training in Japan following their return to their own country. Its

purpose is to heighten the effect of technical cooperation through the combination of people and material.

f) Japan Overseas Cooperation Volunteers (JOCV)

The Japan Overseas Cooperation Volunteers (JOCV) assignment programme recruits young people, between the ages of 20 and 39, and trains and sends them to developing countries to live with local people and transfer their technology through aid at the grassroots level. These activities are carried out based on specific agreements between the governments of Japan and the recipient country regarding the assignments of overseas cooperation volunteers. The work of these volunteers differs characteristically from other forms of technical cooperation in that it is voluntary and that the participants are recruited from among the general public.

In FY 1990 Japan launched the senior Volunteer Programme. These volunteers, whose ages range from 40 to 69, are recruited widely in Japan from those willing to participate and cooperate voluntarily in development projects in developing countries.

g) Project-type Technical Cooperation

Technical cooperation that is implemented on a planned bases over a period of several years (usually five) and as a combination in one project of the three basic types of technical cooperation – namely trainees, dispatch of experts, and provision of equipment and machinery – is called project-type technical cooperation. In recent years, there have been many cases of linkage of this type of with grant aid, in which Japanese grant aid is used to fund the construction of facilities that are then used as the base for carrying out project-type technical cooperation. Project-type technical cooperation is presently being carried out in cooperation projects directed at social development (e.g., road and transportation, telecommunications, education), health and medical care, population control and family planning, agriculture, forestry, and fisheries, and industrial development.

h) Development Studies

Development studies often gather information for official development planning centring on the building of roads, ports, electric power systems, telecommunications, sewerage and water supply, agricultural development, and other economic and social infrastructure. At other times, development studies compile the basic data needed as the basis for such planning; the resulting reports are submitted to developing countries' governments, which also use them in social and economic development. Development study reports provide important guidelines in the drafting of development policy by developing country governments, which also use them effectively as sources of basic data in requests for financial and technical assistance to

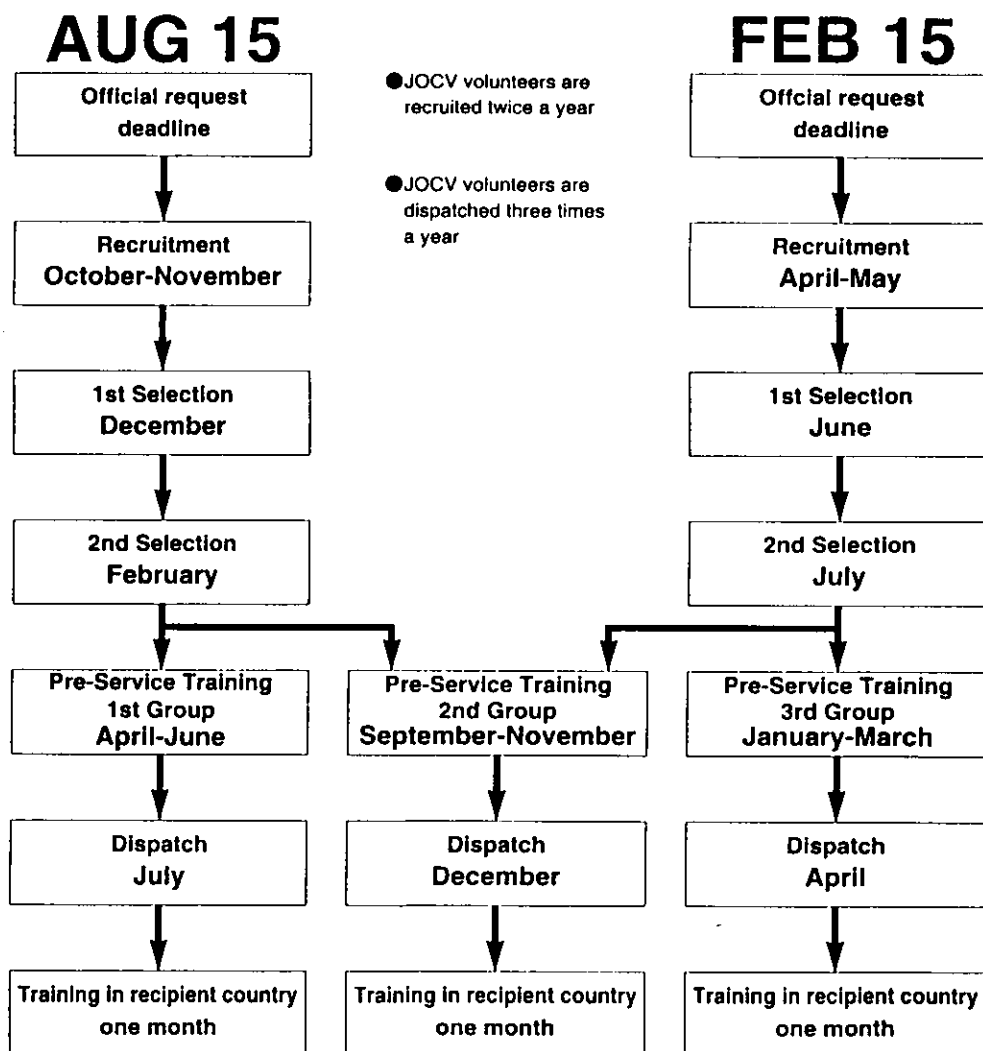
implement development plans.

In recent years, a new type of development study has been carried out whose purpose is to offer policy recommendations and other institutional assistance for medium- and long-term economic development planning, promotion of the transition to market economics, and human resource development. The actual performance of these studies is assigned to teams composed of engineers from consulting companies sent by JICA.

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Japan Overseas Cooperation Volunteers

Procedures from request for volunteers to their assignment



Japan International Cooperation Agency (1999): Japan Overseas Cooperation Volunteers

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8-2) ODA Schemes

8-2-3) ODA Loans, Aid through Multilateral Organisations

a) ODA Loans

ODA loans (yen loans) lend funds for development at low interest for long periods to developing countries.

In providing these loans, Japan takes into consideration that stages of development in developing countries vary widely, from the poorest LLDCs to “semi-developed” countries that are midway between developing and developed country status. Depending on a developing country’s economic circumstances and creditworthiness, the loan conditions (interest rates, term) are changed to suit the country’s ability to repay the loan and its economic conditions.

Though economic infrastructure is the main sector in which yen loans are used, yen loans are increasingly used to help to improve sewerage and water systems, health and medical care, education, and other social infrastructure.

1) Annual recipients

So-called annual recipients are countries that receive yen loans regularly (usually once a year). In their case, Japan and the recipient government have periodic consultations to deepen policy dialogue and mutual understanding; these meetings also have the advantage that they help to build up know-how concerning yen loans procedures. From FY1996, with the addition of Peru to the roster, Japan entertains relations with 14 annual recipients.

2) Countries with debts that have been rescheduled, and least among less developed countries (LLDCs)

The provision of loans is premised on the borrower’s obligation to repay the principal and interest; loan applications from countries whose existing debts have been rescheduled and from LLDCs must therefore be scrutinised very cautiously. However, in cases where a country strongly desires to receive a new long-term yen loans on concessional terms because it would stimulate its economy and might increase its ability to repay its debts, the country’s latent economic potential, its repayment ability, its relations with Japan, as well as the necessity and the amount of the loans are all taken into consideration.

3) Upper-middle income countries

Japan responds to loan requests from upper-middle income countries – that is, developing countries with comparatively high incomes (the FY1998 criterion is a per capita GNP of \$3,116 in 1996) – by taking the nature of the project funded and other factors into consideration when examining the suitability of providing them concessional yen loans. Especially in the case of environmental projects, which have low potential profitability and therefore little commercial

attractiveness despite the importance of environmental action, Japan takes a positive attitude toward yen loans to these types of developing, semi-developed countries.

b) Aid through Multilateral Organisations

Aid provided by multilateral organisations has certain advantages over bilateral assistance including the mobilisation of international networks enabling different parties to take best advantage of their specialised knowledge and experience and the facilitation of aid coordination spanning multiple countries and geographical regions. Specific aid methods – besides the sending of experts to international organisations and other methods classified as technical cooperation – characteristic of aid channelling include paying a share of costs (as membership dues), making contributions, and making investments.

Cost-sharing is a form of financial cooperation involving the obligation to pay for membership in the organisation and normally is decided by the charter of the United Nations organisation, which is decided at the time of its foundation. The actual method of dues calculation normally involves deciding the organisation's total budget for each fiscal year and dividing the total by each member's share. When a member country recognises the benefits of the project activities of the international organisation concerned and decides it should be supported, an appropriate amount is contributed which takes into account the scale of future project activities.

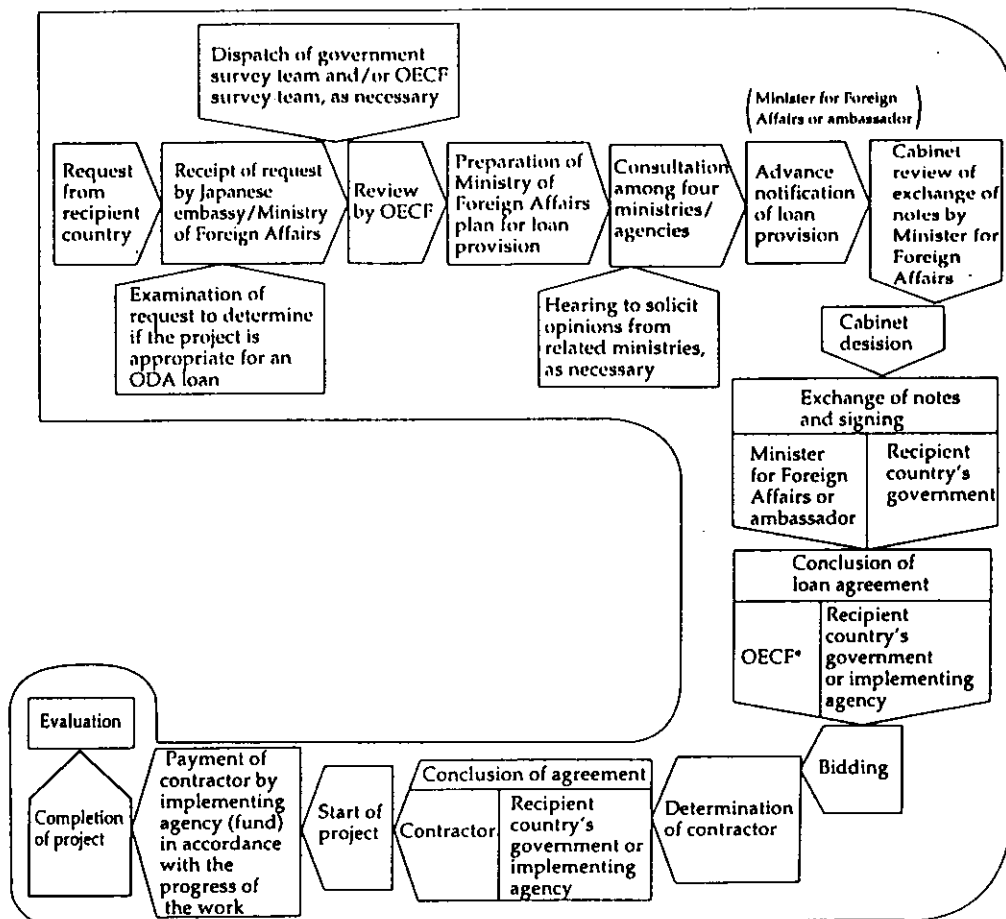
Yet another arrangement, where bilateral aid donor countries and multilateral international organisations cooperate in aid implementation and seek to improve aid efficiency by drawing on each other's information, know-how, staff, and funds in complementary ways, is called multilateral-bilateral aid cooperation.

Ministry of Foreign Affairs (1998): Japan's ODA 1998, Association for Promotion of International Cooperation

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ODA Project Loan Mechanism

ODA Project Loan Mechanism



*OECF: Overseas Economic Cooperation Fund

Ministry of Foreign Affairs (1998): Japan's ODA 1998, Association for Promotion of International Cooperation