

# Japan's Changing Official Development Assistance:

## How Institutional Reforms Affected the Role of Japan's Private Sector in ODA Delivery

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## **Abstract**

Despite its OECD membership and transformation from aid recipient into a major donor of official development assistance (ODA), Japan has long been criticized for pursuing commercial interests through its infrastructure-focused ODA, which has heavily relied on its own corporate private sector for implementation.

Throughout the last two decades, institutional reforms have altered the structure and principles of Japan's foreign aid; yet not much knowledge has been produced on how these reforms have changed the prominent role of Japan's private sector in aid implementation. This thesis took up this question and applied the theoretical model of the iron triangle, native to political and development studies, to first establish the internal power relations between the involved corporations, bureaucracy, and the government pre-reform. Triangulation of quantitative data from MOFA and OECD statistics with qualitative data from interviews with civilian and business professionals in ODA was then conducted to determine how the role of the private sector has changed within the triangle. Further, changes within the private sector were explored. While the ODA-affiliated firms comprising the corporate part of Japan's private sector have become less influential as a consequence of the reforms, the civilian part has gained more weight in aid implementation.

**Keywords:** Official Development Assistance, Foreign aid, Japanese ODA, Bilateral aid, Aid implementation, Private sector, Reform.

Word count: 14,949

## **Preface**

When I set out for Japan in early 2015, I had felt less concerned about the research questions prepared in my folder than about the apparel packed for Tokyo's January weather. As it turned out, Tokyo winter offered nothing anyone from Sweden would not be perfectly accustomed to; however, upon starting the course at Waseda University, I realized I had brought the wrong set of questions.

Diving into a debate about Japan's ODA that is led by academics and professionals based in Japan, and learning what they considered the most important aspects, the true scale of what it means to bring an open mind to research dawned on me.

To access Waseda's Graduate School of Asia-Pacific Studies (GSAPS) and discuss my research plans with two of their most outstanding PhD candidates enabled me to use all available resources to the fullest. For this reason I would like to thank Diana Kartika and Motoi Takegawa for their invaluable time, knowledge and contacts shared with me. Also, I would like to thank the Centre for East and South-East Asian Studies at Lund University for the opportunity to conduct field work at Waseda University.

Next, I want to extend my gratitude to the great people at the JICA Global Plaza and JICA Library in Tokyo, who provided me with guidance and access, without which much of my research would not have been possible. Special thanks go to my interview partners for bestowing me with the gift of their time and insights.

Further, I want to express heartfelt appreciation for the Nordic Institute of Asian Studies NIAS for granting me the NIAS SUPRA Scholarship, which allowed me to access an immaculate database and obtain helpful feedback from the Institute's perspicacious scholars.

A tireless, inspirational source of support and advice throughout the entire process has been my supervisor Ming Chee Ang, who I am very thankful to.

Last, but certainly not least, I am thanking my wonderful family and friends for their unconditional love and support.

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## Acronyms

AIIB	Asia Infrastructure Investment Bank
BHN	Basic Human Needs
CSO	Civil Society Organisation
DAC	Development Assistance Committee
ECFA	Engineering Consulting Firms Association
EPA	Economic Planning Agency
FY	Fiscal Year
ICB	International Competitive Bidding
JANIC	Japan NGO Center for International Cooperation
JBIC	Japan Bank for International Cooperation
JICA	Japan International Cooperation Agency
JICA RI	JICA Research Institute
JICS	Japan International cooperation System
JOCV	Japanese Overseas Cooperation Volunteers
JTCA	Japan Transport Cooperation Association
LDC	Least Developed Countries
METI	Ministry of Economy, Trade and Industry
MOF	Ministry of Finance
MOFA	Ministry of Foreign Affairs
NDD	Non-DAC Donors
OCAJI	Overseas Construction Association of Japan, Inc.
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OECF	Overseas Economic Cooperation Fund
STEP	Special Terms for Economic Partnership
SV	Senior Volunteers
TC	Technical Cooperation
TICAD	Tokyo International Conference on African Development

# 1. Introduction

## 1.1. Background

In the last three decades, Japan has drawn wider academic attention to its foreign policy focus on official development assistance (ODA),<sup>1</sup> which had expanded and grown in budget despite the country's internal economic malaise. Among the corresponding assumptions as to what had been driving these changes were Japan's efforts to improve its foreign relations, secure access to markets and resources, promote development and stability, recycle the trade and foreign reserve surplus, as well as humanitarian obligation. As Japan had become the world's largest donor country by budget in the late 1980s and remained in that position for nearly a decade, studies condensed around the question of the effects and quality of Japan's foreign aid as well as the comparison of Japan to other major donor countries.

Along with the expansive development of Japan's ODA, its internal structures on all levels, from the decision making process to administration and implementation had become increasingly unclear and difficult to visualize. Further, a large set of different actors within government and the private sector were involved, which added to the intricacy.

Responding to the increased complexity, external and internal pressures, a series of administrative reforms to enhance policy coordination and merge institutions responsible for different types of aid ensued. One result of these efforts was the re-launch of the Japan International Cooperation Agency (JICA) in 2008, which has since been the sole agency responsible for grant aid, loan aid (also known as 'yen loans'), technical cooperation and emergency/disaster relief. Uniting all types of aid for around 150 global recipient countries under one institutional roof has made JICA the world's largest ODA agency.

The structural changes within Japan's ODA had been accompanied by political manifestations, foremostly in the form of an official ODA charter adopted in 1992, which has been revised in 2003 and in 2015. These political and administrative changes have altered Japanese ODA and its position in global development cooperation.

While academia has been largely committed to repositioning Japan's ODA in the international aid discourse and outlining external consequences, little attention has been given to internal developments, more precisely the changing role of Japan's private sector actors. Due to Japan's aid focus on infrastructure, its large budgets opposite a small number of

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<sup>1</sup> Orr, Robert M. Jr. (1990), *The Emergence of Japan's Foreign Aid Power*, Columbia University Press, p. 27.

administrators and its ODA composition of loans before grants and technical cooperation, the private sector has always played a more essential and powerful role in aid implementation than in other established donor countries.

For this reason, this thesis investigates how the role of the private sector has changed 1.) In its significance and influence vis-à-vis the administrative apparatus of ministries and agencies and 2.) Whether and how the private sector, which has previously only been associated with large construction and trading companies, must be redefined in the light of the ODA charter's goal to increase public participation in aid.

The first chapter introduces the research question, its relevance in a contemporary context, the tenor of existing literature, and the contribution to the aid discourse. Due to the complex nature of ODA, the second chapter first lays out the methodological framework and limitations. As the reader's understanding progresses and the interrelations between the institutions become clearer, the underlying theoretical concept is elaborated on in the third chapter. The fourth chapter follows the theoretical categories and provides the reader with a brief introduction of aid modalities and institutions at the policy-making, administration and implementation level. This is to convey what foreign aid actually entails between the handshake of two state leaders on the one end and the materialization of a new facility on the other, as it is commonly understood. The fifth chapter condenses the most significant institutional changes and measures their effective consequences for the role and internal balance of the private sector. At last, the final Chapter 6 rounds up the main findings and offers an outlook with respect to contemporary global developments in aid.

## **1.2. Contemporary Context**

The academic discourse on international development cooperation, which is the more politically correct term for foreign aid, began with post-war economic reconstruction and reparation policies. Japan's position in the discourse has evolved from indebted recipient country in the 1950s to the world's largest donor by the end of the 1980s, although the expansion of its financial, sectoral and geographical scope has not equated to praise by the OECD's Development Assistance Committee (DAC), which conducts peer reviews on Japan's and other members' ODA systems. Due to the intricate bureaucracy behind its ODA



and its contrast to Western donors,<sup>2</sup> Japanese aid has generally not been presented as a model holding lessons for other industrialized economies in the western-dominated academic landscape.<sup>3</sup> This view blended into the narrative of the Japanese economy as a cautionary tale for failed financial policies, which has dominated the international debate following Japan's persistent deflationary crises.<sup>4</sup>

A series of recent global incidents however has drawn a wider audience to the aid discourse and opened it up for new discussions: In 2013, global combined aid funds reached \$134.8 bn, the highest level ever recorded,<sup>5</sup> with the largest spike of 37% from 2012 in real terms coming from Japan, which contributed net ODA of \$11.8bn,<sup>6</sup> the fourth largest amount after the USA (\$31.5bn), UK (\$18bn) and Germany (\$14bn).<sup>7</sup>

In Japan, this increased ODA commitment was perceived well as it coincided with the 60<sup>th</sup> anniversary of its ODA in 2014. Since the debate on Japan's position in the global aid sphere is set to be invigorated by these inputs, exploring the internal consequences of Japan's recent ODA reforms adds an important perspective.

In order to understand these consequences, a basic understanding of Japan's principle ODA structures must first be established: Between the political decision to provide assistance for a country and the actual implementation of aid projects there, a range of private sector actors fulfill essential tasks, which are coordinated and supported by Japan's official implementation agencies. In most ODA systems of OECD donor countries, these non-state actors include private business contractors, civil volunteers and NGOs. While Scandinavian aid sets a particular focus on NGOs, Japanese aid relies strongly on business contractors. Among the business contractors involved in the implementation of Japan's ODA projects, consultancies, trading companies and construction firms are at the centre. Civil volunteers,

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<sup>2</sup> Feasel, Edward M. (2014), *Japan's Aid: Lessons for Economic Growth, Development and Political Economy*, Routledge, p. 97.

<sup>3</sup> Söderberg, Marie (2005), "Swedish perceptions of Japanese ODA" in: David Arase (2005), *Japan's Foreign Aid: Old continuities and new directions*. Routledge. P. 81.

<sup>4</sup> Krugman, Paul (2014), "Apologizing to Japan", *The Economist View*, [economistsview.typepad.com/economistsview/2014/10/paul-krugman-apologizing-to-japan-.html](http://economistsview.typepad.com/economistsview/2014/10/paul-krugman-apologizing-to-japan-.html), (accessed 21.01.2014).

<sup>5</sup> United Nations (2014), *The Millennium Development Goals Report 2014*, p.4. [www.un.org/millenniumgoals/2014%20MDG%20report/MDG%202014%20English%20web.pdf](http://www.un.org/millenniumgoals/2014%20MDG%20report/MDG%202014%20English%20web.pdf) (accessed 19.03.2015).

<sup>6</sup> OECD (2014), *OECD Development Co-operation Peer Reviews: Japan 2014*, OECD Publishing, p. 16. <http://dx.doi.org/10.1787/9789264218161-en> (accessed 15.03.2015).

<sup>7</sup> OECD (2014), *Aid to developing countries rebounds in 2013 to reach an all-time high*, [www.oecd.org/newsroom/aid-to-developing-countries-rebounds-in-2013-to-reach-an-all-time-high.htm](http://www.oecd.org/newsroom/aid-to-developing-countries-rebounds-in-2013-to-reach-an-all-time-high.htm) (accessed 02.04.2015).

who are directly involved in ODA programs,<sup>8</sup> are comprised of young and senior volunteers dispatched to developing countries for two years, as well as a smaller share volunteers dispatched to support Japanese diaspora, known as Nikkei communities.

### **1.3. Research Question**

To answer the overarching question how institutional changes have affected the role played by the private sector in Japan's ODA provision, a series of inevitable subordinate questions must be mooted beforehand. These include:

Which modalities of ODA have been affected by the reforms and to what extent?

What types of industries are mainly involved in ODA provision and how have they been affected?

What role do overseas volunteers and other civilian actors play in Japan's ODA outline have come to play? What is the link between aid volunteers, business and politics? Summing up the respective findings, the concluding question elaborates on what trends and challenges can be observed and what lessons can possibly be added to a knowledge pool for donor countries.

### **1.4. Study contribution**

In analyzing how the power constellation between government, administration and corporate and civil actors in Japan's bilateral aid has developed, this thesis first of all offers an alternative narrative to the commonly assumed streamline, top-down aid structure, in which governments pass down aid policies.

Second, while the literature on foreign aid predominantly focuses on political motives and the evaluation of projects and aid effectiveness in the recipient countries, this thesis seeks to draw more attention to these internal dynamics as consolidation of bureaucracy is highly relevant in regard to both the growing scene of emerging donors and traditional donor countries:

New donors in the process of forming bureaucracies for provision of aid that - similarly to Japan - concentrates on infrastructure development and economic growth, will be more influenced by Japan than any other DAC donor. Especially emerging Asian donors like Thailand, Malaysia or Indonesia, where Japan has been the largest bilateral donor, are likely

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<sup>8</sup> As opposed to volunteers active in aid related but independent NGOs, which may receive state support within the ODA budget.

to design aid schemes similar to Japanese ODA,<sup>9</sup> as has been the case for Korea as a new DAC donor.<sup>10</sup>

Further, the consolidation of decision-making bodies and bureaucratic agencies has been proven to offer synergetic cost-saving effects, which is paramount for established donors that encounter increasing budget constraints.<sup>11</sup>

Besides, pointing out success and praise as well as criticism in the Japanese experience holds value for donor countries which have recently conducted relatable organizational amalgamation within their ODA administrations, like Germany, Canada and Australia.<sup>12</sup>

Finally, this thesis provides insights for anyone interested in the current degree of private sector involvement in Japanese ODA. To those already observant of the changes within Japanese ODA, this thesis will encourage new thoughts and perspectives. For those not concerned with recent Japanese ODA or the subject of development assistance in general, it will provide an understanding of basic ODA mechanisms and sensitize for the multitude of variables that determine how and by who aid projects are implemented.

## 1.5. Literature review

Research on ODA policies mostly focuses on aid effectiveness in recipient countries, new modes of development cooperation, the dynamics between emerging and existing donors, and the function of ODA in a donor's foreign policies profile. In all of these streams the focus is outward oriented, stressing the 'foreign' aspect in foreign aid, whereas little attention is given to the involvement of domestic cooperation vital to the implementation of the aid projects. While there is a growing tendency for studies on Private Public Partnerships (PPP) in development cooperation, the distinction between companies' independent development investments in cooperation with or though support by the state and projects in which companies act as contractors without equity, is often not clear enough.

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<sup>9</sup> Ohno, Izumi (2014), "Japanese Development Cooperation in a New Era: Recommendations for Network-Based Cooperation", *GRIPS Discussion Paper 14-15*, p. 12, [www.grips.ac.jp/r-center/wp-content/uploads/14-15.pdf](http://www.grips.ac.jp/r-center/wp-content/uploads/14-15.pdf) (accessed 12.03.2015).

<sup>10</sup> Menocal, Alina R./Denney, Lisa/ Geddes, Matthew (2011), *Informing the Future of Japan's ODA*, The Overseas Development Institute, London, p. 36, [www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/7619.pdf](http://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/7619.pdf) (accessed 08.03.2015).

<sup>11</sup> Ceriani, Lidia/ Verme, Paolo (2014), "The Income Lever and the Allocation of Aid", *The Journal of Development Studies*, Vol. 50, No. 11, p.1520.

<sup>12</sup> Troilo, Pete (2015), *Inside the takedowns of AusAID and CIDA*, Devex, [www.devex.com/news/inside-the-takedowns-of-ausaid-and-cida-85278](http://www.devex.com/news/inside-the-takedowns-of-ausaid-and-cida-85278) (accessed 08.03.2015).

Further, industry-related consequences of ODA policies especially require more attention in Japan's case, where the ODA budget's loan share is greater than in any other DAC donor country, as loan aid is largely funding material intense infrastructure. The apparent scarcity of English language works shedding light on the nexus of ODA implementation and the private sector in Japan likely stems from the fact that leading scholarship on the topic has mostly been produced by Anglo-Saxon and European scholars outside Japan. A recent comprehensive work on Japanese ODA from a global perspective is Edward Feasel's *Japan's Aid: Lessons for Economic Growth, Development and Political Economy*. On the one hand Feasel provides detailed econometric and political context for the evolution of Japan's ODA policies, while he also adopts a comparative approach between Japan and other donors to draw lessons for how to achieve economic growth through ODA. He argues that Japan's ODA approach enables it to take a mediating role between Western donors and emerging Non-DAC donors like China and India: While Japan shares their emphasis on infrastructure development to achieve economic growth and poverty reduction opposed to a western soft-aid focus and good-governance conditionality, it is also a founding member of the DAC and major shareholder in the IMF and the Asian Development Bank (ADB).

### ***Focus on Administration and Implementation of Aid***

Another frequently cited work that features comparisons between Japan's and other donors' ODA with a perspective on private sector participation is US political scientist David Arase's 2005 book *Japan's Foreign Aid - Old continuities and new directions*. A contributor to *Japan's Foreign Aid* with a particular focus on the mechanisms in Japan's ODA administration and implementation is Australian professor of Japanese Studies, Alan Rix. His 1993 book *Japan's Foreign Aid Challenge* and 1980's *Japan's Economic Aid: Policy-making and Politics* are deemed landmark works for foreign politicians and scholars eager to understand "how the Japanese aid effort was pushed and pulled by domestic conditions [...]".<sup>13</sup>

In a similar fashion as Rix, who has sensitized the discourse for the fact that neither the policy-making nor the bureaucracy of Japan's aid are set in a hierarchical structure, but instead derive from decentralized planning and control, writes Robert M. Orr, whose 1990 book *The Emergence of Japan's Foreign Aid Power* became frequently cited in subsequent works. Despite criticism for the book's emphasis on US pressure shaping Japanese policies,

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<sup>13</sup> Rix, Alan (1980), *Japan's Economic Aid: Policy-making and Politics*, Martin's Press, p. 12

the qualitative depth of Orr's analysis was unprecedented. A political science professor at Temple University Tokyo at the time of writing, Orr's experience in Japanese academia and previous career as US diplomat had equipped him with an elaborate network into Japan's top decision-making spheres.<sup>14</sup> Drawing on his rich repertoire of contacts enabled him to add valuable insights and opinions from Japanese policy-makers, bureaucrats, industries and independent analysts.<sup>15</sup>

The tendency of scholars inside rather than those outside Japan deeming relations within the government and with the private sector essential for understanding Japan's ODA is only logical, however the relevance of these relations appears not yet harmonized in the international discourse.

Publications, that extensively explore private sector involvement in Japan's aid implementation and introduce actors which are very little known considering their influence, are 1992's *Doing Good or Doing Well? Japan's Foreign Aid Program* a by US political economist Margee Ensign; *The Business of Japanese Foreign Aid* from 1996 by Swedish Japanese Studies professor Marie Söderberg; And *Japan's System of Official Development Assistance* from 1999 by associates of the Canadian International Development Agency (CIDA) Micheline Beaudry and Chris M. Cook. While these volumes contain crucial information for anyone interested in how and by who Japan's bilateral aid projects are planned and practically implemented, they also provide eclectic indicators, which this thesis intends to test for the current, post-reform status.

### ***Japanese Academia on Japan's ODA***

While Japanese literature on Japan's foreign aid has been extensively cited by Non-Japanese authors proficient in the language like Arase and Orr, relevant works in English by Japanese academics include *Japanese Views on Economic Development* from 1998 by development economists Izumi Ohno and Kenichi Ohno and 1989 *Recycling Japan's Surpluses for Developing Countries* by US-based economist Terutomo Ozawa.

A significant increase in papers on private-public aid relations written in English has been induced by the creation of new research institutions: Since its founding in 2008, the JICA Research Institute (JICA-RI) has contributed to more academic diversity while conducting a

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<sup>14</sup> Temple University Japan Campus (2013), Robert M. Orr, <http://www.tuj.ac.jp/icas/speaker/robert-m-orr/> (accessed 06.04.2015).

<sup>15</sup> Orr, Robert M. Jr. (1990), *The Emergence of Japan's Foreign Aid Power*, Columbia University Press.

great share of their research in cooperation with international think tanks, academic institutions and governmental aid agencies. An instructive JICA-RI report, which adds new perspectives to the asymmetry between reforms on implementation and ministerial level is University of Tokyo professor Jin Sato's *The Benefits of Unification Failure: Re-examining the Evolution of Economic Cooperation in Japan*.

### ***International Reports***

Next to reports by JICA-RI, a range of international research institutes provides independent assessments like *Informing the Future of Japan's ODA* by the Overseas Development Institute's (ODI) Alina Rocha Menocal and team. Although the 2011 report critically points out challenges borne by the current institutional configuration of Japanese ODA, the overarching notion seems to be a defense of Japan's model of development assistance against conventional criticism by the OECD's DAC. This effect may be explained by the circumstances that the report was commissioned and thus funded by JICA and further builds on publications by JICA and the Ministry of Foreign Affairs (MOFA).

Since there is no international database that holds uniformly assembled and all-encompassing aid statistics from all donor countries however, information not falling under international reporting regulations, e.g. number of applicants for the JOCV program or contractors involved in technical cooperation, can only be found in JICA or MOFA reports.

Other sources the ODI report and other independent reports feed on are the OECD's DAC peer reviews on Japan's ODA, which can include estimates that deviate from data stated by MOFA. While there is no doubt about the sincere intentions in reporting by JICA, MOFA or the OECD, verdicts to accredit OECD data with more objectivity solely due to their multilateral nature should be refrained from. Guided by the fact that all forms of development cooperation are political, sources should always be treated with appropriate consideration. While reports by the OECD or the UN's development Cooperation Fund (DCF) reviewing Japan and other donors imply a divide between DAC and Non-DAC Donors (NDD), academia within Japan rarely features these DAC vs. NDD categories, but instead largely refers to Japan as an Asian donor opposite Western donors. This self-identification arises from Japan's priority shared with proximate donors like South Korea, Taiwan, Singapore and China to fund large scale infrastructure projects juxtaposed to what is described as a "concentration of western aid to the social sectors."<sup>16</sup> In fact, policy recommendations for

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<sup>16</sup> Sato, Jin (2015), *The Benefits of Unification Failure: Re-examining the Evolution of Economic Cooperation in Japan*, JICA RI Working Paper No. 87, JICA Research Institute, p. 7.

Japan's ODA given by DAC peer reviews generally differ from those by Japanese academics: DAC reports justifiably evaluate Japan's ODA against the goals and regulations agreed on within the Committee, i.e. the ODA to GNI ratio of 0.7%, whereas Japanese academics may also be concerned about volume commitments, but show a stronger focus on the foreign policy context in their recommendations. On the occasion of the second revision of the ODA charter, adopted by the cabinet early 2015, renowned scholars like GRIPS professor Izumi Ohno demanded diversion from the principle of request-based aid towards more active, international leadership.<sup>17</sup> In the light of recent developments, NUS researchers Tomoo Kikuchi and Takehiro Masutomo addressed the emergence of the China-initiated Asia Infrastructure Investment Bank (AIIB) to make a case for participation by Japan.<sup>18</sup>

Generally speaking, diverse sources should be used to avoid mere recitation of one perspective only. In the case of aid, it is important to utilize information provided by multilateral institutions with simultaneous awareness of which countries the biggest stakeholder in said institutions are.

## 2. Methodology

### 2.1. Data

As the thesis aspires to arrive at a holistic understanding of a complex, multidimensional relationship, different methods have been combined to process different types of data. As both qualitative data obtained from semi-structured interviews and textual data as well as longitudinal quantitative data were the focus of analysis, data triangulation was the key concept.<sup>19</sup> At first, literature of Japan's ODA in the early 1990s before the adoption of the first charter was analyzed to synthesize a model of Japan's aid implementation and the role of the private sector in it. Next, the political and institutional reforms were examined with respect to their relevance for aid implementation. With this background knowledge, collection of qualitative primary data began through semi-structured interviews with key informants

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<sup>17</sup> Ohno, Izumi (2014), "Japan's ODA Policy and Reforms since the 1990s and Role in the New Era of Development Cooperation", *GRIPS*, p. 65, [www.grips.ac.jp/forum-e/IzumiOhno\\_E/lectures/2014\\_Lecture\\_texts/03\\_KOICA\\_Ohno\\_1125.pdf](http://www.grips.ac.jp/forum-e/IzumiOhno_E/lectures/2014_Lecture_texts/03_KOICA_Ohno_1125.pdf) (accessed 05.04.2015).

<sup>18</sup> Kikuchi, Tomoo/ Masutomo, Takehiro (2015), *Japan should influence the Asian Infrastructure Investment Bank from within*, East Asia Forum [www.eastasiaforum.org/2015/03/18/japan-should-influence-the-asian-infrastructure-investment-bank-from-within/](http://www.eastasiaforum.org/2015/03/18/japan-should-influence-the-asian-infrastructure-investment-bank-from-within/) (accessed 19.03.2015).

<sup>19</sup> University of Strathclyde (2014), *Triangulation: Introduction*, [www.strath.ac.uk/aer/materials/2designstrategiesineducationalresearch/unit5/triangulation/](http://www.strath.ac.uk/aer/materials/2designstrategiesineducationalresearch/unit5/triangulation/) (accessed 20.05.2014).

conducted during a six-week fieldwork stay in Tokyo from January to February 2015. These informants, all interviewed individually and in English, and identified through snowball-sampling, were comprised of three practitioners working in ODA related consulting (1) and trading firms (2), six former volunteers of the JOCV program and two JICA employees, of which one was stationed in the Tokyo HQ and the other one in an overseas office in Latin America. The former JOCV volunteers had been dispatched between 2008 and 2014 and were placed in different countries in Oceania, Southeast Asia and Sub-Saharan Africa.

In the interviews, lasting an hour on average, the informants were first asked a set of questions about their activities and experiences within ODA projects, their understating of the ODA structure and actors involved, and lastly, their perception of developments or changes in Japanese ODA. After the initial questions, interviewees elaborated on trends and problems they observed, as well as opinions of their specific projects and the policies in general.

Their answers and statements were then matched against facts from obtained from official documents such as annual reports and MOFA white papers, independent academic literature, and OECD reports.

This qualitative data was then complemented with quantitative data, which is comprised of longitudinal data indicating the degrees of involvement of civil society members and Japanese contractors in implementation over time.

## **2.2. Analytic Strategy**

Studying Japan's ODA implementation scheme and involvement of the private sector as an outside observer, the assumption precedes that flows of financial, personnel and technological resources exist regardless of whether or how they are studied.<sup>20</sup>

However, any observer must recognize their origin in a society, where an established knowledge of aid programs and guiding principles exists. What is seen as the reality of Japanese aid is formed by the numbers and material chosen within a context and data availability. As all actors involved cannot be clinically isolated for analysis, no single theoretical concept can account for all aspects of private sector involvement; the research question has consequently been approached from a critical realist point of view.<sup>21</sup>

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<sup>20</sup> Furuoka, Fumitaka (2009), *Main characteristics of Japanese Official Development Assistance (ODA) flows*, MPRA Paper No. 1359, Munich Personal RePEc Archive, p.1.

<sup>21</sup> In accordance with Bryman's definition of a critical scientist as someone who accepts that the categories he/she chooses to understand reality are most likely to be provisional and therefore also accepts that there is a



### 2.3. Limitations and Ethical Considerations

In line with the ethical guidelines defined by the Swedish Research Council, the author took necessary precautions to ensure ethical data collection.

Preceding all interviews and acceptance of other forms of data, the author introduced her personal background, academic background, university affiliation and the topic of the Master's thesis. Following her introduction, the author explained the nature of questions, proposed length of interview and inquired suitable time and place for an interview. Unless by initiative of the interview partner, which occurred in three instances, no ad-hoc interviews were conducted in order to safeguard an informed and conscious consent as well as voluntary participation. Before the beginning of all semi-structured interviews, the author explained the recording function of her mobile phone and offered to resort to only note-taking if preferred. After every interview the author once more asked for permission to quote anonymously, and complying with the explicit recommendation by her supervisors at Waseda University, the author lastly presented the interviewee with a non-substantial token of gratitude, a so-called *omiyage*, in the form of sweets. Anonymity and confidentiality of interviewees and other supporters have at all times been guaranteed and all collected data has been stored in a responsible manner.

Regarding the general question of data reliability with respect to all used materials, Japan is fortunately a country with acceptable scores in transparency indices. However, with regard to ODA specifically, diverting interpretation in reporting have been the cause for criticism by OECD reviews while cases of minor data inconsistencies in MOFA statistics have been found by the author as will be addressed in the fourth chapter.

Another eventual limitation is posed by the choice to only conduct interviews in Japan, which is an established donor country. Since donors naturally have an interest in being perceived as considerate, benevolent and/or efficient, attitudes by ODA providers reflecting such tendencies harbor the risk of a biased presentation or omission of negative aspects, when interviewed. However, such concern is more relevant for studies that target the direct effects of Japanese aid in recipient countries.

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difference between his/her approach to study a topic and the actual nature of that topic. Bryman, Allen (2008), *Social Research Methods*, Oxford University Press, p. 14.

### 3. Theoretical Framework

A concept frequently referenced in scholarship on Japanese politics to describe the dysfunctional democratic structure, that has enabled the long-lasting dominance of the Liberal Democratic Party of Japan (LDP), is the so-called ‘iron triangle’ of power.<sup>22</sup> The triangular symbolism reflects a vested interests system between the LDP, the bureaucratic apparatus and Japan’s notorious *keiretsu* business conglomerates exchanging mutual favours. The pre-reform trifecta of Japan’s ODA system - comprised of the policy-making government, administration through the ministries and agencies, and implementing corporations and their lobby groups – bears resemblance to the iron triangle insofar as power does not follow a top-down but instead intertwined structures as will be pointed out below. Therefore, critics have referred to Japan’s aid system as the ‘ODA iron triangle’.<sup>23</sup> This comparison gains additional transferability through the parallel of non-LDP Prime Minister Hosokawa’s 1994 electoral reforms seeking to break up the power triangle and the 1992 ODA Charter initiated by the government to structure ODA according to strategic guidelines and aid principles.<sup>24</sup>

The fact that members of the largest corporate and civil society interest groups, Keidanren and the Japan NGO Center for International Cooperation (JANIC), together with cabinet advisors were part of the expert panels that revised the ODA charter, underlines the divided power in ODA. For this reason, the question how the role of the private sector in aid implementation has been affected by the reforms has to explore changes on two levels. On a first level, the question is how the role of the private sector has changed within the aid triangle, wherein Japanese firms have influenced aid projects through research and consulting in recipient countries (facilitated by the request-based aid principle), and have been regulated through the tying status of ODA funds. On a second level, the question is how the agency of aid implementation within the private sector has changed as ‘private sector’ pre-reform meant construction firms, consultants and the large Japanese trading houses, *sogo shosha*, rather than civil society.

As there are many statistical relationships in the focus of the ODA discourse, the indicators to measure said changes, which will be discussed below, have been carefully inferred from the specific structural changes addressed in the ODA charter and in the OECD review, e.g. the

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<sup>22</sup> Dower, John (2003), “Democracy in Japan” in “Durable Democracy: Building the Japanese State”, *Asia Program Special Report No. 109* p. 3.

<sup>23</sup> Arase, David (2005), *Japan’s Foreign Aid*, Routledge, p. 11.

<sup>24</sup> Söderberg, Marie (1996), *The Business of Japanese Foreign Aid*, Routledge, p. 45.

share of infrastructure-bound funding and status of aid tying, which indicates the share of Japanese construction companies in overall loan contracts.

## 4. Conceptual Framework

### 4.1. Definition

Concessional funding for development is described with varying terminologies, which are either to be understood as synonymous or as actually referring to different types of funds. Although there is ongoing international contention as to where the line between commercial loans and foreign aid in the form of concessional loans is, the DAC has agreed on the term Official Development Assistance (ODA) for funds that are 1.) Provided by governments or government agencies 2.) Promote economic development and welfare in developing countries as a main objective and 3.) Are concessional through a grant element of 25% minimum, calculated with a 10% discount rate.<sup>25</sup> The grant element thus measures the loan's concessionality and is defined as the difference of the nominal value stated in the loan contract and all discounted future debt-service payments expressed as a percentage of the former. The reference interest rate, the discount rate, which indicates the opportunity cost borne by the donor in providing the loan, has been set at 10% by the DAC for its statistics.<sup>26</sup> The variables determining the grant element of a loan are its interest rate, maturity and grace period. The higher the grant element, the 'softer' and more concessional the loan is to the borrower. Grants bear a grant element of 100%.

As a result of the diverging opinions held by the Nordic countries and the US on the one side arguing against concessional loans to be counted as ODA, and the EU, France, Germany and Japan advocating greater recognition of concessional loans as ODA, the statistical framework of ODA has been revised in 2014. Changes include a clustering of the required grant element threshold into 45% for Least Developed Countries (LDC) and other Low-Income Countries (LIC), 15% for Lower Middle-Income Countries (LMIC), and 10% for Upper Middle-Income Countries (UMIC). Along the creation of these new thresholds, the discount rates have been altered accordingly.<sup>27</sup> These and other, new conditions will fully

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<sup>25</sup> JICA (2015), *Japan's ODA and JICA*, [www.jica.go.jp/english/about/oda/](http://www.jica.go.jp/english/about/oda/) (accessed 15.04.2015).

<sup>26</sup> Lammersen, Frans (2014), *Explanation of Concepts used in Concessional and Grant Element Calculations*,

OECD, [www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DCD/DAC/STAT\(2012\)18/REV1&docLanguage=En](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DCD/DAC/STAT(2012)18/REV1&docLanguage=En) (accessed 17.04.2015).

<sup>27</sup> OECD (2014), *Modernising Official Development Assistance (ODA): Concessional loans before and after the HLM*, OECD, [www.oecd.org/dac/stats/documentupload/ODA%20Before%20and%20After.pdf](http://www.oecd.org/dac/stats/documentupload/ODA%20Before%20and%20After.pdf) (accessed 17.04.2015).

replace the current system by 2018; all ODA values in this thesis refer to the current statistical framework.

ODA disbursements by a donor country can be made through multilateral institutions, i.e. the World Bank, European Development Fund (EDF), UN Development Program (UNDP), ADB, or on bilateral basis.<sup>28</sup> This thesis subsequently refers to Japan's bilateral ODA, which comprises 70-75% of its total ODA disbursement.<sup>29</sup>

## 4.2. Historical Background of Japanese ODA

In order to contextualize Japan's ODA system and the stance the government has taken in defending it against criticism by the DAC or NGOs for benefiting its own industries, it is crucial to know how Japanese ODA has evolved. Japanese officials frequently remark how the country derives its strong emphasis on infrastructure projects and other programs enabling export-led growth from its own experience catching up after WW2. Since infrastructure was the area where Japan had lagged behind developed countries the most, the priority was set on electrical generating capacity, telephone coverage, paved roads, railways and other infrastructural components.<sup>30</sup> This infrastructure development was partly funded by World Bank loans, to which Japan was the second largest recipient after India until it graduated from borrower status in 1967.<sup>31</sup> Other economic-political incidents coming into effect at the same time were Japan's liability for war reparations to Southeast Asian countries and its invitation to join the Colombo Plan for Cooperative Economic and Social Development in Asia and the Pacific in 1954.

As the origins of Japan's ODA were both coined by its post-war reconstruction efforts as a loan recipient and its war reparation payments agreed on in the Treaty of Peace with Japan 1951, academics refer to the first era of Japanese ODA as the war reparation era or era of Japan's own economic development.<sup>32</sup>

The timeline of Japanese ODA has frequently been divided into four eras classified by the prime economic driver of its ODA program. The war reparation era is followed by the era of new responsibilities, particularly poverty reduction, tied to joining the DAC and OECD in the

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<sup>28</sup> The division between multilateral and bilateral ODA here is meant as a statistical division and not political one, new forms of aid by DAC members as Triangular Cooperation is statistically reported under bilateral aid by Japan and thus included in the following.

<sup>29</sup> OECD (2014), *OECD Development Co-operation Peer Reviews: Japan 2014*, p. 9.

<sup>30</sup> The prestige bullet train *Shinkansen* and parts of the highway system were financed by World Bank loans.

<sup>31</sup> Feasel, Edward M. (2014), *Japan's Aid*, p. 13.

<sup>32</sup> Tsunekawa, Keiichi (2014), *Objectives and Institutions for Japan's Official Development Assistance (ODA): Evolution and Challenges*, JICA RI Working Paper No. 66, JICA Research Institute, p. 1.

1960s. During this time, implementation agencies for loans, grants and technical cooperation (TC) were created and the JOCV program was launched.<sup>33</sup>

The third era throughout the 1970s and 1980s is marked by the promotion of democracy and market economy, which more critical observers described as an era of systematic, mercantilist expansion intended to secure access to natural resources in the wake of the two global oil shocks 1973 and 1979. The strong focus on Asia and the notable congruence of aid recipients and trade partners, or countries where Japan has significant trade interest, had added substance to this criticism.<sup>34</sup>

The current era, starting with Japan's 1977 announcement to double its ODA budget and untie aid, sees Japan as one of the world's largest donors. Japan's steep rise throughout the 1980s was spurred by various factors: The appreciation of the Japanese Yen following the Plaza Accord of 1985 elevated Japan's budget numbers in the USD-denoted statistics of the DAC drastically;<sup>35</sup> At the same time American ODA budgets were cut amid tensions of the cold war; And Japan officially committed to recycling its large trade surplus through ODA.<sup>36</sup>

While the landmark works about Japan as a major donor such as Orr's 1990 *Emergence of Japan's Foreign Aid Power* or Rix' 1993 *Japan's Foreign Aid Challenge* were written at a time when Japan was at the pinnacle of aid donors in terms of budget size, the most impactful structural and ideological developments characterizing its current institutional ODA framework evolved in the last two decades.<sup>37</sup> The first ODA charter 1992, stating to foot on 40 years of ODA experience, serves as a starting point: It manifested global aid issues such as environmental changes and human security concerns among other objectives.<sup>38</sup>

### 4.3. Locating Japanese ODA in a Global Context

Theories about what informs Japanese ODA range from realist views seeing aid as a tool to implement capitalist production systems and groom trade partners, to liberalist views supporting the idea of genuine interest in the improvement of livelihoods in poor states. However, in order to understand the motives and mechanisms characterizing Japanese ODA

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<sup>33</sup> Muratani, Seiki (2007), *The Nature of Japan's Official Development Assistance: Japan's Bilateral ODA and its National Interests, 1981-2001*, The School of Graduate Studies Indiana state University, p.22.

<sup>34</sup> Orr, Robert M. Jr. (1990), *The Emergence of Japan's Foreign Aid Power*, Columbia University Press. p. 60.

<sup>35</sup> Ensign, Margee (1992), *Doing Good or Doing Well?*, Columbia University Press, New York, p. 6.

<sup>36</sup> Orr, Robert M. Jr. (1990), *The Emergence of Japan's Foreign Aid Power*, Columbia University Press. p. 52.

<sup>37</sup> Ohno, Izumi (2014), Japan's ODA Policy and Reforms since the 1990s, p. 65.

<sup>38</sup> MOFA (1997), *Japan's ODA Charter*, <http://www.mofa.go.jp/policy/oda/summary/1997/09.html> (14.04.2015).

and the prominent role of the private sector in it, a study beyond the broad generalizations implicit to either liberalist, realist or other great IR theories is necessary.<sup>39</sup>

### ***Japan as a DAC member***

When speaking of Japanese ODA in an international context, two major categorizations must be made. First of all, the political classification of Japan as a member of the OECD's DAC, to which it had been a founding member along the US, Canada, Australia, the UK, France, Germany, Belgium, the Netherlands, Italy, Portugal and the Commission of the European Economic Community in 1960.<sup>40</sup> The DAC started as a forum for consulting and cooperation among the donor countries and has grown to a size of 29 member states over the years, which adhere to a common definition of ODA and self-imposed policy landmarks like the alignment with the UN Millennium Development Goals (MDG), the 2005 Paris Declaration of Aid Effectiveness and the 0.7% ODA of GNI ratio.<sup>41</sup> The current three foci of the DAC's work are the compliance with uniform reporting standards for resource flows and aid performance; policy coordination through common guidelines; and periodic reviews of the members' aid policies. Although Japan and the US are the largest absolute DAC contributors with a united share of 35% of all DAC aid funds, the DAC itself has been criticized as acting too intrusive, inflexible and Eurocentric.<sup>42</sup> Certainly, ODA in every member country stems from individual cultural settings, institutions and values. However, looking at the historical origins of ODA in the DAC countries, a set of European commonalities stand out: aid provision by most donors was rooted in their colonial history or missionary experiences in the recipient countries. In contrast, Japan, which has been the only Asian member until Korea's accession in 2009, and Korea, have commenced aid provision without either of these patterns.<sup>43</sup>

Moreover, while the DAC has been growing in members and budget, a competition between DAC and non-DAC donors (NDD) or emerging donors is becoming increasingly visible. Although contributions by China and the Arab gulf states are already surpassing those from some smaller DAC members, a comparison is difficult as NDDs refrain from using the

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<sup>39</sup> Sheyvens, Henry (2005), "Reform of Japan's official development assistance: a complete overhaul or merely a fresh coat of paint?", *Progress in Development Studies* 5, 2 (2005), p 89.

<sup>40</sup> OECD (2006), *DAC in Dates - The History of OECD's Development Assistance Committee*, OECD Publishing, p. 7.

<sup>41</sup> OECD (2006), *DAC in Dates - The History of OECD's Development Assistance Committee*, p. 42.

<sup>42</sup> Di Ciommo, Mariella (2014), *Development cooperation for the future - The increasing role of emerging providers*, Development Initiatives, p. 5

<sup>43</sup> Andersen, Uwe (2005), *Deutschlands Entwicklungspolitik im internationalen Vergleich*, Bundeszentrale für politische Bildung, [www.bpb.de/izpb/9082/deutschlands-entwicklungspolitik-im-internationalen-vergleich?p=all](http://www.bpb.de/izpb/9082/deutschlands-entwicklungspolitik-im-internationalen-vergleich?p=all) (accessed 10.03.2015).

DAC's ODA definition and reporting standards.<sup>44</sup> Further, most NDDs avoid the terminologies of 'donor' or 'aid' and instead employ the term 'development cooperation' to stress the vis-à-vis level of aid. Interestingly, a very similar difference was observed between Japan and Western donors in the late 1980s, when *Keizai kyōryoku* – economic cooperation had been the catch-all phrase for Japan's economic relations, including aid disbursements, with Asian countries and the 'aid' label had been avoided.<sup>45</sup> While this distinction between DAC and NDD and the respective multilateral institutions funded by them naturally play a greater role within the halls of the OECD, UNDP or World Bank, different sets of narratives compete.

Within the DAC, Japan's focus on large-scale infrastructure and trade-enabling projects has long been criticized as insensitive towards recipient countries' needs and poverty alleviation.<sup>46</sup> Further has Japan's geographical preference for Asia and lack of ideological norms guiding its efforts often been chided by those comparing Japan to other DAC members, mainly the other G7 donors Canada, France, Germany, Italy, the UK and the US.<sup>47</sup>

Since this thesis, however, is concerned with internal changes of Japan's aid policies and structures, the role of Japan's DAC membership will only be regarded where it has played an influential role shaping Japanese aid.

### ***Japan as an Asian Donor***

As highlighted by the DAC peer reviews, which have been conducted for Japan in 1995, 1999, 2003, 2010 and 2014, Japan has adopted suggestions to introduce a political and ideological guideline for its aid in its official ODA charter, while remaining firm on other key differences. One held up principle revolves around its aid trifecta of technical cooperation, grants and also concessional loans. Although the conditions attached to Japan's loans are more concessional than those of French or German loans, Japan still remains in the focus due to the larger share of loans in their total ODA portfolio (43% as of 2013).<sup>48</sup> Addressing the criticism of its dominant ODA loans, officials stressed Japan's rejection of aid as charity or an obligation of the rich, but help for self help. Further, loans opposed to grants would allow the recipient country to decide the terms of aid projects and includes them more into the

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<sup>44</sup> Smith, Kimberly/ Yamashiro Fordelone, Talita/ Zimmermann, Felix (2010), *Beyond the DAC – The Welcome Role of other Providers of Development Co-Operation*, DCD Issues Brief, OECD Publishing, p.2. [www.oecd.org/dac/45361474.pdf](http://www.oecd.org/dac/45361474.pdf) (accessed 15.03.2015).

<sup>45</sup> Orr, Robert M. Jr. (1990), *The Emergence of Japan's Foreign Aid Power*, Columbia University Press. p. 53.

<sup>46</sup> Arase, David (2005), *Japan's Foreign Aid*, Routledge, p. 7.

<sup>47</sup> Arase, David (2005), *Japan's Foreign Aid*, Routledge, p. 14.

<sup>48</sup> Benn, Julia (2013), *DCD/DAC - Loan Concessionalities in DAC Statistics 2013*, OECD.

process.<sup>49</sup> In these statements responding to the DAC criticism, the Japanese government has frequently underlined its profile as an Asian donor and found backing in the ODA principles of Korea and China, which similarly focus on economic growth through infrastructure development and loan ratios around 40% of total bilateral ODA.<sup>50</sup>

After Korea joined the DAC in 2009 and created its aid framework and agency KOICA after the aid model of Japan - formerly Korea's largest donor - Japan has been backed in its predating claim that its model represents an "Asian-Style" ODA.<sup>51</sup>

Next to Korea, the belief that comprehensive economic growth as a prime aid goal is best achieved through infrastructure development, is also found in Taiwan and other emerging Asian donors like Thailand. Although China is often portrayed as a competitor of Japan, JICA itself reported improvements for recipient countries through the cooperation and competition with China, which runs similar projects in common recipient countries, particularly within agricultural and infrastructural development in Africa.<sup>52</sup>

Consequently, locating Japan's ODA in the international context always requires attention to both the DAC-NDD and the East-West divide.

#### 4.4. Aid Modalities

Japanese bilateral aid is divided into concessional yen loans, technical cooperation and grants aid. A characteristic of both the LDC-focused, diversely used grant aid and the dominating large-scale infrastructure funding loans, that is decisive for Japanese industries and in conflict with international requirements, is the status of tied vs. untied aid. The two categories determine whether goods or services must be procured from a specific region or country (Japan) or whether procurement is open to bidders from any country or region. According to OECD estimates, tying aid can raise the costs by 15-30% along with increased bureaucratic efforts for both the donor and the recipient country.<sup>53</sup> However, instead of inferring from this

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<sup>49</sup> Arase, David (2005), *Japan's Foreign Aid*, Routledge, p. 105.

<sup>50</sup> OECD (2014), OECD Development Co-operation Peer Reviews: Korea 2012, OECD Publishing. p. 53.

<sup>51</sup> Arase, David (2005), *Japan's Foreign Aid*, Routledge, p. 275.

<sup>52</sup> JICA Research Institute (2014), *Improving Quality of Aid through Competition and Cooperation: JICA-RI Deputy Director Naohiro Kitano Delivers Speech at Seminar on China's Foreign Aid*, JICA Research Institute Newsletter No.66, p. 4.

In China's case, the 2011 white paper on China's foreign aid stated that concessional loans had made up 29% of China's total accumulated foreign aid until 2009.

<sup>53</sup> Clay, Edward J./ Geddes, Matthew/ Natali, Luisa/ te Velde, Dirk Willem (2008), *Thematic Study, The Developmental Effectiveness of Untied Aid: Evaluation of the Implementation of the Paris Declaration and of the 2001 DAC Recommendation on Untying ODA To The LDCs*, Phase I Report, p. 1, [www.oecd.org/development/evaluation/dcdndep/41537529.pdf](http://www.oecd.org/development/evaluation/dcdndep/41537529.pdf) (access 22.04.2015).



estimate that untied aid is objectively the best choice in every regard, it should be noted that the OECD as a supranational organization strongly advocates the untying of aid.<sup>54</sup> Officially, Japan has begun untying of its aid in the late 1970s and states that all its ODA covered by the DAC Recommendation on Untying ODA is entirely untied.

Along these lines, the Japanese MOFA has officially declared its stance as a “strong proponent of untying aid”.<sup>55</sup> In contrast to these statements however, the DAC recently criticized a reverse of Japan’s policy of untying aid. According to their extrapolation, total bilateral aid, which includes the normally tied technical cooperation projects not falling under DAC recommendations as a grey area in aid reporting, had fallen to a factio 71% untied status in 2012, below the 79% DAC average.<sup>56</sup>

#### **4.4.1. Grants**

Grant aid includes all types of bilateral ODA, which is provided without repayment obligation. The main subjects of Japanese grant aid cover Basic Human Needs (BHN), e.g health, sanitation, food security as well as other ‘soft aid’ areas, such as environmental protection and human resource development. Until the DAC High Level Meeting in 2001, in which a recommendation to untie ODA to LDCs Countries was agreed upon among member states, grant aid was provided in the form of tied aid allowing Japanese firms to win contracts without competition.<sup>57</sup> Even though grant aid has since been reported as untied, however, the tying status of Japanese grant aid has remained a highly controversial topic as three consecutive DAC peer review reports have critically pointed out that grant aid gets reported as untied on the basis that the subcontractors can be freely procured whereas the primary contractor must be Japanese.

#### **4.4.2. Technical Cooperation**

ODA expressed as technical cooperation includes the transfer of knowledge through exchange, training as well as the transfer of required equipment, both of which are administered by JICA. Of the three instruments, technical cooperation is most evenly

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<sup>54</sup> OECD, *Untied Aid*, <http://www.oecd.org/dac/untied-aid/> (accessed 20.01.2014).

<sup>55</sup> Iimura, Yutaka (2000), *Japan's position on untied aid*, MOFA, [http://www.mofa.go.jp/j\\_info/japan/opinion/iimura.html](http://www.mofa.go.jp/j_info/japan/opinion/iimura.html) (accessed 21.01.2015).

<sup>56</sup> OECD (2014), *OECD Development Co-operation Peer Reviews: Japan 2014*, p. 18.

<sup>57</sup> Hirata, Keiko (1998). “New Challenges to Japan's Aid: An Analysis of Aid Policy-Making”, *Pacific Affairs*, vol. 71, no. 3, p. 328.

covering the various sectors from building up administrative systems to public works and utilities, agriculture, health and medical care, human resources, energy-related projects or developing tourism. Along the development towards more concessionality and aid for Basic Human Needs, funding for technical cooperation has risen over the years, although the share in the total bilateral aid budget has been decreasing from 43% in 2003 to 31% in 2008 and slightly increased to 34% again in 2012 according to MOFA's white papers. Although JICA has been the prime institution administering technical cooperation since its inception in 1974, in 2013, it had managed 70% of MOFA's budget for technical cooperation and around 48% of the total ODA budget for technical cooperation.<sup>58</sup> Some observers in the DAC have interpreted the operational similarity of technical cooperation and grant aid projects in social infrastructure and services, such as health, education and sanitation as indication for an artificial separation between the two modalities that allows for more aid to be tied.<sup>59</sup> The peer reviews however also mentioned that dualities may stem from the separate jurisdiction over technical cooperation and grants between JICA and MOFA.

#### **4.4.3. Loans**

Until 2008, loans were provided by the Japan Bank for International Cooperation (JBIC), which was merged with JICA in September 2008.

In contrast to grants, ODA loans are intended to fund medium to large scale economic infrastructure projects and are formally request-based. JICA will normally request the borrower to obtain goods and services through international competitive bidding (ICB) and a local procurement agent will be appointed to manage the process.

Loan aid was initially tied to Japanese goods and services, yet responding to international pressure as well as requests by recipient countries, the government officially adopted a strategy of untying its loan aid in the 1970s,<sup>60</sup> which had already reached a 91% rate of untied loans in 1992, 98% in 1994 and 100% in 1996.<sup>61</sup> However, after tied loan modalities were reintroduced and the proudly presented 100% diminished, MOFA switched to reporting the tying status of total bilateral aid instead of the tying status of loans.<sup>62</sup>

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<sup>58</sup> MOFA(2013), *Japan's Official Development Assistance White Paper 2013*, p. 168.

<sup>59</sup> OECD (2004), *OECD Development Co-operation Peer Reviews: Japan 2003*, OECD Publishing. P. 13.

<sup>60</sup> First untying commodity aid in 1972 and starting untying of loan aid in 1978.

<sup>61</sup> OECD (1996), *Development Co-operation Review Series: Japan*, No. 13, p. 37. <http://www.oecd.org/dac/peer-reviews/36300126.pdf> (accessed 02.04.2015)

<sup>62</sup> Overall bilateral aid currently is 94.8% untied according to the MOFA 2013 White Paper.

With a focus on Japan's corporate sector, aid loans are controversial for two reasons: Due to the formal request requirement aimed at allowing recipient countries to articulate their own priorities, contractors can influence aid flows to their benefit by carrying out studies and identifying projects for recipient countries, which could then be implemented with their participation.<sup>63</sup> Interest groups as the Japan Transport Cooperation Association (JTCA), one of the largest ODA-related industrial lobby groups, lay out these structures and their advantageous position in it openly.<sup>64</sup>

The second aspect of longstanding contention revolves around the tying status of Japan's aid modalities and its reporting thereof. In 2002, MOFA introduced the Special Terms for Economic Partnership (STEP) loans, which require procurement of Japanese goods and services. The underlying goal according to the white paper is to increase the "visibility of Japanese aid" in the recipient countries, and to spur Japanese exports and job creation.<sup>65</sup> The introduction of STEP loans has widely been interpreted as an appeasement of Japan's large contractors, which had become aid-fatigued due to the untying policy.<sup>66</sup> While it is the recipient government that decides what type of loan to request, STEP Loans offer the most concessional terms (low interest rate and late repayment) and are thus particularly favorable for large projects in recipient countries where Japan already is a major creditor. Such is the case in Vietnam, which signed agreements for 15 out of all 31 STEP loans that JICA provided from FY 2010- 2014, nearly all of them for transportation development.<sup>67</sup> This development is closely linked to strong presence of overseas subsidiaries of Japanese consulting and trading giants as Mitsui, Nippon Koei or Sumitomo. The relationship, however, is also overshadowed by a history of corruption scandals, in which such companies have bribed Vietnamese officials to win contracts, even those under STEP loans, as these still require bidding among Japanese competitors.

The other point of contention around STEP loans is their reporting status in the statistics. A common definition for tying statuses is not only lacking between OECD observers and JICA,

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<sup>63</sup> The stages in ODA loan provision can be roughly divided into project preparation, appraisal, signing of agreement, tender and procurement, evaluation, and follow-up.

<sup>64</sup> JTCA (2008), *Japan's International Cooperation Scheme in Transport Sector*, <http://www.jtca.info/eng/eng/scheme> (accessed 10.02.2015).

<sup>65</sup> MOFA (2013), *Japan's Official Development Assistance White Paper 2013*, p. 19.

<sup>66</sup> Sunaga, Kazuo (2004), *The Reshaping of Japan's Official Development Assistance (ODA) Charter*, Discussion Paper on Development Assistance November 2004 No. 3, FASID, p. 5.

<sup>67</sup> Taken from JICA's ODA Loan Project DATA available at [http://www2.jica.go.jp/en/yen\\_loan/index.php](http://www2.jica.go.jp/en/yen_loan/index.php) (accessed 28.04.2015).

but also within the Japanese administration as the same loan project can appear as ‘tied’ and ‘untied’ in different JICA data outlets.<sup>68</sup>

#### 4.4.4. The Rise of Public-Private Partnership (PPP)

A practical example for Japan’s open promotion of ODA as a tool that is also supposed to promote developing countries’ business with Japan are the ten Japan Centers for Human resource development, which were launched 2000. JICA has opened centers in Vietnam, Laos, Myanmar, Cambodia, Mongolia, Uzbekistan, Kazakhstan, the Kyrgyz Republic and Ukraine as part of their technical cooperation. In these facilities various types of training and exchange between universities, researchers and trainees is organized. Since the centers promote the Japanese business principle *Kaizen*, companies have incentives to sponsor seminars, conduct CSR activities and subsequently recruit employees through the centers. According to the official presentation, the two major objectives of the Japan Centers are “developing human resource of business and fostering exchanges with Japan”.<sup>69</sup> A similar institution commenced in 2013 is the Myanmar-Japan Center for Human Resource Development, which is a joint project by JICA and Burmese counterparts. Like the other 10 Japan Centers, the Yangon-based Center intends to cooperate with businesses and has been announced as part of PPP development scheme.<sup>70</sup>

As the name suggests Public-Private Partnerships include development projects, in which the government shares investment and risk with a private corporation, whose benefit will depend on the performance of the asset/project. Although this is not to be confused with private corporations acting as contractors on behalf of the government and therein not holding a stake in the project, the division between state-funded and state-supported PPP projects is not always clear. The distinction has become even harder after a 1996 legal change has enabled ODA loans to be connected with Build-Operate-Transfer (BOT) and Build-Operate-Own (BOO) projects, in which the implementing contractor would have rights to draw benefits from projects’ results, e.g. collecting toll from a built highway in a developing country.<sup>71</sup> PPP as a concept has emerged in the 1990s and stretches across a variety of models (like BOT/BOO), which are chosen depending in individual circumstances (existing infrastructure,

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<sup>68</sup> In a press release the „National Geo-Spatial Data Infrastructure Development Project“ is listed as “tied” ([www.jica.go.jp/english/news/jbic\\_archive/autocontents/english/news/2007/000062/reference.html](http://www.jica.go.jp/english/news/jbic_archive/autocontents/english/news/2007/000062/reference.html)), while the same project is listed as “General untied” in the ODA Loan Project DATA base.

<sup>69</sup> JICA (2010), *Japan Center*, p.1.

<sup>70</sup> MOFA (2013), Japan’s Official Development Assistance White Paper 2013, p. 17.

<sup>71</sup> Söderberg, Marie (1996), *The Business of Japanese Foreign Aid*, Routledge, p. 58.

ownership structures, financing, required degree of government control etc.). In 2008, the government announced a new policy strand in its ODA to promote PPP between Japanese businesses and JICA in developing countries, which further elevates the role played by the private sector in realizing Japan's ODA policy.

## 4.5. The Institutions

### 4.5.1. Decision-Making Institutions

Describing the administrative built of Japan's ODA framework with all institutions involved, Robert M. Orr pointedly remarked: "In Britain, the tax system has been characterized as a system that nobody would design and nobody did. This comment could apply equally to the Japanese aid structure."<sup>72</sup>

Although a multitude of agencies at the implementation level, which will be introduced below, have been successfully integrated into one single aid agency, the new JICA launched in 2008, the decision making process on ministerial level is still multi-centric, albeit coordinated by MOFA, which makes it difficult to trace back projects or country strategies to the political sponsor.<sup>73</sup>

While ODA is commonly understood as a streamline process in which a bilateral aid project eventuates from negotiations between representatives of both governments,<sup>74</sup> it is more accurate to divide the stages of ODA into the policy-making stage on ministerial level, the administrative stage, on which agencies design and manage projects, and the project implementation stage, on which contractors take center stage. The realization of a Japanese aid objective often requires the participation of several different firms providing the required equipment and materials, and government agencies overseeing and funding the project. An illustrative and representative example is the Hasan Sadikin Hospital in Bandung, Indonesia. For simplicity, the Hospital has been described as "built with Japanese aid"<sup>75</sup>. This statement as such is correct, yet there is more precision in describing it as follows: In order to conduct

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<sup>72</sup> Orr, Robert M. Jr. (1990), *The Emergence of Japan's Foreign Aid Power*, Columbia University Press. p 20.

<sup>73</sup> Sato, Jin (2015), *The Benefits of Unification Failure*, P. 1.

<sup>74</sup> With the exception of reporting on ODA-related corruption scandals in recipient countries as most recently the case of a Japanese contractor bribing Vietnamese officials to secure Hanoi Railway project funded through JICA. Beaudry, Micheline/ Cook, Chris M. (1999), *Japan's System of Official Development Assistance*, International Development Research Centre (Canada), p. 90.

<sup>75</sup> Kartasmita, Ginandjar (2008), *Indonesia and Japan - 50 Years of Partnership*, Embassy of Japan in Indonesia [www.id.emb-japan.go.jp/oda/en/topics\\_ginanjjar.htm](http://www.id.emb-japan.go.jp/oda/en/topics_ginanjjar.htm) (accessed 20.04.2015).

improvements around the Hasan Sadikin Hospital, the Indonesian government had requested an ODA loan of ¥ 4.7bn for engineering services through the Japanese embassy in Indonesia, which was then approved by MOFA. Lastly, the project evaluation was supervised by JICA, who had contracted an external Japanese evaluator and an Indonesian third-party evaluator.<sup>76</sup>

### ***Decision making at ministerial level***

The most important, or at least most intuitive, decision in the process of providing ODA is the decision on the budget. Japan's ODA budget is decided on an annual basis. The Cabinet submits a draft to the Diet at the beginning of the year, to that it can get approved before the beginning of the fiscal year on 1 April. For 2013/14, an ODA budget of Yen557.3bn had been approved.<sup>77</sup>

As Japanese ODA is very industry-intense, industrial lobby organizations have been vocal in making policy recommendations and should thus be considered an external influence in the decision-making process.

### ***Ministry of Foreign Affairs (MOFA)***

Until the reform-induced shift, Japanese ODA has been within the authority of four main ministries, MOFA, the Ministry of Finance (MOF), Ministry of Economy, Trade and Industry (METI),<sup>78</sup> and the Economic Planning Agency (EPA). For this reason, the system had been referred to as 'four-ministries consultation system', in which MOFA has always received the largest budget, although the share has risen as a consequence of reform efforts to centralize aid policy coordination.

Consolidating ODA administration through the 2008 restructuring of JICA, which has since stood under MOFA jurisdiction, strengthened the ministry. In 1998 it was comparably small with less than 5000 employees and had not represented specific domestic interest groups like METI or other industry-related ministries. Therefore, it did not have the same backing for its policies within the private sector or political circles.<sup>79</sup> Partly because of its relatively weak position, MOFA's aid projects mostly followed in response to external demands. As described

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<sup>76</sup> JICA (2004), *Evaluation Highlights on ODA Loan Projects 2004*, [www.jica.go.jp/english/our\\_work/evaluation/oda\\_loan/post/2004/pdf/2-20\\_smry.pdf](http://www.jica.go.jp/english/our_work/evaluation/oda_loan/post/2004/pdf/2-20_smry.pdf) (accessed 20.04.2015) p.41.

<sup>77</sup> OECD (2014), *2014 Global Outlook on Aid*, [www.oecd.org/dac/aid-architecture/GlobalOutlookAid-web.pdf](http://www.oecd.org/dac/aid-architecture/GlobalOutlookAid-web.pdf) (accessed 10.04.2015) p. 79.

<sup>78</sup> formerly named Ministry of International Trade and Industry (MITI).

<sup>79</sup> Hirata, Keiko (1998). "New Challenges to Japan's Aid: An Analysis of Aid Policy-Making", p. 313.

by political scientist Keiko Hirata, MOFA had used international pressure on Japanese ODA to elevate its own role within the government.<sup>80</sup>

#### *Ministry of Finance (MOF)*

Internally, the Ministry of finance (MOF) has been seen as the largest and most powerful ministry involved as it had direct control of the allocation of ODA, the second largest operational budget after MOFA and had authority over multilateral aid disbursement. MOF had been said to favor loan aid over grants since loans were within its own jurisdiction through the Export-Import Bank of Japan (JEXIM) and its successor, the Japan Bank for International Cooperation (JBIC). Managing the ODA loan budget via its agencies, while MOFA oversaw the much smaller grants, MOF had thus been in charge of the largest share of Japan's total ODA budget. After JBIC's ODA loan operations had been integrated into JICA in 2008 however, MOF is now mainly responsible for Japan's multilateral aid.<sup>81</sup>

#### *Ministry of Economy, Trade and Industry (METI)*<sup>82</sup>

Between the three ministries, MITI has always received the smallest budget. Representing industries, which were increasingly losing international biddings for loans due to their comparably high costs during times of Yen appreciation, it opposed an increase in soft aid and advocated a return to tied aid, which went against the interest of MOFA.<sup>83</sup> METI had been particularly influential in the decision-making around ODA during its beginnings as it had developed the industrial policies for infrastructural reconstruction and promotion of trade for economic growth, which were transferred into Japan's ODA system.<sup>84</sup> After the revised charter of 2003 had shifted more decision-making power to MOFA, which manages two thirds of the overall ODA budget through JICA, METI is now mainly responsible for private-public partnership for development and only manages ca. 4% of the total ODA budget.<sup>85</sup>

#### *Economic Planning Agency (EPA)*

The EPA was originally responsible for the former ODA loan agency, the Overseas Economic cooperation Fund (OECF), to avoid conflict of interest between the three ministries, MOFA, MITI and MOF. As the EPA was domestically weak and the weakest institution in the four-

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<sup>80</sup> Hirata, Keiko (1998). "New Challenges to Japan's Aid: An Analysis of Aid Policy-Making", p. 314.

<sup>81</sup> OECD (2014), OECD Development Co-operation Peer Reviews: Japan 2014, p. 33.

<sup>82</sup> Formerly named Ministry of International Trade and Industry (MITI).

<sup>83</sup> Hirata, Keiko (1998). "New Challenges to Japan's Aid: An Analysis of Aid Policy-Making", p. 320.

<sup>84</sup> Feasel, Edward M. (2014), *Japan's Aid*, p. 120.

<sup>85</sup> OECD (2011), *OECD Development Assistance Peer Reviews: Japan 2010*, OECD Publishing.

<http://dx.doi.org/10.1787/9789264098305-en> (accessed 21.04.2015) p. 53.

ministries system, the OECF was initially stronger influenced by bureaucratic power play between the three ministries rather than its actual legislation. Officials in the respective Japanese ministries concerned with aid, generally had not have in-depth experience in the field as rotation between different departments was part of their political curriculum.<sup>86</sup> The EPA was merged into the Cabinet Office in 2001 as part of the central government reform and its oversight over the OECF and ODA loans transferred onto JICA and thus MOFA's responsibilities.<sup>87</sup>

#### *Ministerial Councils*

Under the auspice of MOFA, several meetings between all involved ministries and agencies are held to formulate ODA charter and its revisions, country assistance programs (CAP) and the ODA medium-term policy statements every three to five years, which set the basis for Japan's ODA objectives and focus areas.

#### **4.5.2. Implementing Institutions**

The integration of agencies at the implementation level is regarded as a success in reforming Japan's ODA.<sup>88</sup> According to Edward Feasel, the re-launch of JICA as the sole implementing agency for all three types of aid was Japan's greatest administrative move towards Western ODA structures. Accordingly, JICA is now at the heart of Japanese ODA.

While implementation of Japan's request-based bilateral aid is managed by the implementation agency JICA, it is more accurate to speak of a multi-stage implementation system involving various actors on every stage.

#### ***Case of a Large-Scale Infrastructure Project: the National Geo-Spatial Data Infrastructure Development Project in Indonesia***

An illustrative bilateral loan aid project is the currently ongoing "National Geo-Spatial Data Infrastructure (NSDI) Development Project" in Indonesia. It is representative inasmuch as it is a large scale (total loan budget: ¥6,37bn) infrastructure project in a Southeast Asian recipient country, which still accounts for the bulk of Japan's ODA budget. The objective of the project is to acquire geo-spatial data on Sumatra island and set up a NSDI networking system in order to improve administration by local governments. Project oversight and disbursement of loan budget are JICA's responsibilities, while the executing agency was Badan Informasi

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<sup>86</sup> Hirata, Keiko (1998). "New Challenges to Japan's Aid: An Analysis of Aid Policy-Making", p. 314.

<sup>87</sup> Feasel, Edward M. (2014), *Japan's Aid*, p. 118.

<sup>45</sup> Sato, Jin (2015), *The Benefits of Unification Failure*, p. 2.



Geospasial (BIG), an Indonesian government agency managing geospatial data. As acting agency, BIG is cooperating with other Indonesian ministries. General administration costs of ¥510mio (6.7% of total costs) and taxes are not covered by the loan budget. Regarding the question of Japanese business involvement, the project's largest subject of expense occupying 51.8% of total costs are data production and acquisition, which BIG awarded to a Joint venture of two Japanese contractors. The other core part of the project, consuming 30% of total costs, is the development of NSDI networking systems, which was awarded to another Japanese contractor. Consulting, which started at the early project study phase and comprises several tasks throughout the project cycle, takes up 8.4% of total costs and was awarded to two Japanese- Indonesian Joint Ventures. External evaluation, determined through JICA, was conducted by a Japanese consultant. The fact that only Japanese companies or Japanese-Indonesian joint-ventures were awarded by the Indonesian BIG stems from the nature of the loan as a STEP loan, which requires goods and services to be procured from Japan with the official goal to enhance visibility of Japanese aid.

### *State Agencies*

Originally, OECF and JICA together divided aid implementation between them. While the OECF lay in the jurisdiction of the EPA and was responsible for loan aid, JICA was directed under MOFA and responsible for technical cooperation. The tasks of the two agencies included the search for projects, conduct of feasibility studies and evaluations for Japanese ministries and recipient governments. Since OECF and JICA have not had their own development specialists and generally had less employees than other countries' aid agencies with similar budgets, they heavily relied on private sector services for economic and engineering expertise. As a consequence of this outsourced expertise, associations for contractors active in ODA have formed. The extremely low number of staff – in 1993 the OECF had 309 employees overseeing a budget of ca \$3.5bn while at JICA 1052 staff members handled a budget of \$4.5bn for grant aid -<sup>89</sup> has been suspected to contribute to the tendency of Japanese ODA to prefer large-scale infrastructure projects. Although JICA is now handling grants and loan aid, staff remains relatively small at 1,842 full-time employees as of 2013.<sup>90</sup>

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<sup>89</sup> OECD (1996), *Development Co-operation Review Series: Japan*, No. 13, p. 13 <http://www.oecd.org/dac/peer-reviews/36300126.pdf> (accessed 02.04.2015).

<sup>90</sup> Söderbrg, Marie (1996), *The Business of Japanese Foreign Aid*, p.54.

## *JICA*

Along the first revision of the ODA charter in 2003, JICA was decoupled from MOFA through the transition into an independent institution and the first-time appointment of a president from outside MOFA. The choice of former UN High Commissioner for Refugees, Sadako Ogata underlined the human security focus manifested in the revised Charter and was welcomed by outside observers.<sup>91</sup> Seizing JICA's new independence Ogata set forth an internal reform agenda shifting more funds, staff and decision-making power to overseas offices, and increasing NGO-partnership for more sensitive poverty alleviation and peace-building.<sup>92</sup> Ogata was succeeded by Tokyo University professor of International Politics Akihiko Tanaka in 2012, when the government emphasized regional security as an ODA focus of Japan amid tensions in the South China Sea. In the context of the official announcement to provide the Philippines and other coastal nations with patrol boats, Tanaka pointed to the ODA charter's principle that ODA must not be used for military purposes or the aggravation of international conflicts, and pressed for ODA to be used as a peace-keeping tool.<sup>93</sup> Although Tanaka had not directly criticized the donation of the patrol boats, his statement fits into the partly diverting interests of JICA, which is closer to the field and has emphasized humanitarian principles of Japan's ODA since becoming independent, and MOFA, which pursues national and diplomatic interests.

Gradually, JICA also assumed grant aid jurisdiction from MOFA after the government decided to restructure the institutional framework in 2006, which lay the foundation for JICA becoming Japan's primary aid agency. In line with this change, MOFA has reduced the percentage of all grants that it manages directly from 30% in 2008 to 13.4% in 2012.<sup>94</sup>

Furthermore, although the government of Japan and MOFA have made significant progress in installing JICA as the prime agency for all ODA implementation and JICA officially "is in charge of administering all ODA such as technical cooperation, ODA loans and grant aid in an integral manner [...]"<sup>95</sup> bilateral aid implementation is not entirely conducted by JICA as shown in Table 1: Ten ministries, two agencies and the Cabinet Office are involved in ODA

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<sup>91</sup> Yomiuri Shimbun (2003), *Ogata to be appointed JICA chief*, Yomiuri Shimbun (2003.08.27).

<sup>92</sup> Arase, David (2005), *Japan's Foreign Aid*, Routledge, p. 274.

<sup>93</sup> Ito, Misami (2012), *New JICA chief wants aid profile lift*, Japan Times, [www.japantimes.co.jp/news/2012/05/23/national/new-jica-chief-wants-aid-profile-lift/#.VT0ocvmsVzs](http://www.japantimes.co.jp/news/2012/05/23/national/new-jica-chief-wants-aid-profile-lift/#.VT0ocvmsVzs) (accessed 23.04.2015).

<sup>94</sup> OECD (2014), *OECD Development Co-operation Peer Reviews: Japan 2014*, p. 51.

<sup>95</sup> JICA (2014), *JICA Profile*, p.5, [www.jica.go.jp/english/publications/brochures/c8h0vm00000k9k0-att/jicaprofile\\_en.pdf](http://www.jica.go.jp/english/publications/brochures/c8h0vm00000k9k0-att/jicaprofile_en.pdf) (accessed 01.02.2015).

policy planning and coordination with some grant projects directly implemented and evaluated by the respective ministries.

Table 1. ODA budget of ministries and agencies (general budget)

(Units: ¥ million, %)

	FY 2012	FY 2013		
	Budget amount	Budget amount	Amount change from previous year	Percentage change from previous year
Cabinet Office	45	—	-45	-100
National Police Agency	13	12	—	-2.8
Financial Services Agency	101	103	2	1.7
Ministry of Internal Affairs and Communications	693	689	-4	-0.6
Ministry of Justice	161	157	-4	-2.3
Ministry of Foreign Affairs	418,033	421,157	3,124	0.7
Ministry of Finance	86,276	81,426	-4,850	-5.6
Ministry of Education, Culture, Sports, Science and Technology	28,727	28,191	-536	-1.9
Ministry of Health, Labour and Welfare	6,111	5,818	-293	-4.8
Ministry of Agriculture, Forestry and Fisheries	3,066	2,772	-294	-9.6
Ministry of Economy, Trade and Industry	17,103	16,196	-907	-5.3
Ministry of Land, Infrastructure, Transport and Tourism	329	293	-36	-11.0
Ministry of the Environment	521	470	-51	-9.7
<b>Total</b>	<b>561,177</b>	<b>557,284</b>	<b>-3,894</b>	<b>-0.7</b>

Source: JICA Annual Report 2013

### ***JICS and Contractors***

Due to the primary objectives of Japanese ODA and the understaffed administration, the private sector has always played an indispensable role. Japan's emphasis on industry-intense infrastructure projects translates into a strong reliance on external consultants, traders and suppliers. Although this reliance on the private sector constitutes a defining character of its ODA, it has not been unique to Japan as is often stated in aid-related literature.<sup>96</sup>

By initiative of MOFA in 1989, Japan International Cooperation System (JICS) was founded as an impartial procurement agency for grant aid and technical cooperation supportive of JICA. Next to procurement service, the other self-stated motivation of its foundation was the achievement of "visible Japanese aid".<sup>97</sup>

<sup>96</sup> Primary implementation of ODA projects through external for-profit contractors is also a feature of US, Australian, UK, French and Chinese aid with donors like Germany now moving in that direction. Söderberg, Marie (1996), *The Business of Japanese Foreign Aid*, p. 72.

<sup>97</sup> JICS (2013), *Toward a World Without Mines*, JICS Publications, p. 2.

Managing Funds and procurement while consulting recipient governments, JICS sits at the nexus between the administration and implementation and handles procurement for 50% of total grant assistance projects.<sup>98</sup>

The range of private companies involved in the implementation has become more diverse, yet they can largely be sorted into the three categories, consultants, trading companies and construction firms. Moreover, next to a range of small and medium-sized businesses exclusively focusing on ODA projects, large enterprises run separate departments specialized on ODA projects.

### ***Consulting***

A majority of consulting firms active in ODA, although not all of them, are members of the Engineering Consulting Firms Association (ECFA), Japan's most influential association of engineering consultants, which has close ties with other industrial associations and the ministries.<sup>99</sup> Consulting firms' central role in ODA implementation can partly be interpreted as a consequence of Japan's request-based aid approach, which makes recipient governments often dependant on consultants to identify possible projects, conduct feasibility studies, divide projects into several contracts and draft the tenders.

Around half of the clients of ECFA members are governmental organizations in developing countries while 61% of the member's overseas business is conducted in Asia, where Japanese firms are more established.<sup>100</sup>

### ***Trading Houses***

Japan's general trading companies, *sogo shosha* have always been well connected to recipient governments and subcontractor suppliers. They do not only formulate projects for their clients, mostly recipients of Japanese ODA, but also suggest which parts of a project should receive ODA. As the same trading companies have also been allowed to prepare bids for their own formulated projects, critics had raised the question how a fair bidding can be ensured when bidding trading companies enjoy such advantages.<sup>101</sup>

Translating *sogo shosha* as 'general trading company', it is further important to put emphasis on 'general' as these trading houses usually have a very diversified portfolio and are often

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<sup>98</sup> ADB (2013), *Outsourcing Procurement in the Public Sector*, ADB publications, p. 7.

<sup>99</sup> Confirmed during interview with a Japanese engineering consultant (Practitioner 1), whose employer is not a member of ECFA

<sup>100</sup> ECFA (2004), *Overseas Activities of Members*, [www.ecfa.or.jp/english/wh-osa.html](http://www.ecfa.or.jp/english/wh-osa.html) (accessed 27.01.2015).

<sup>101</sup> Beaudry, Micheline/ Cook, Chris M. (1999), *Japan's System of Official Development Assistance*, p. 104.

said to be trading “everything from ramen noodles to missiles”.<sup>102</sup> Japan’s seven largest sogo shosha by trade volume, Mitsubishi Corporation, Mitsui & Co., Sumitomo Corporation, Itochu, Marubeni, Toyota Tsusho and Sojitz<sup>103</sup> are all active in resource extraction and have been involved in many large-scale projects funded by JICA.

As the trend of untying aid had caused Japan’s largest industrial lobby, the Federation of Economic Organizations, *Keidanren* to predict a harsh slump in profitability of ODA related business, observers estimated that only large traders with sufficient resources to run well-endowed research departments would be likely to survive. Against this prediction however, Japanese contractors have adopted through increased overseas investments in different industries, with a trend towards commodities and resource extraction. Mitsui, one of the two largest trading houses, now owns a 5% stake in the Brazilian iron ore mining giant Vale, as Mitsubishi’s BHP Billiton Mitsubishi Alliance (BMA) mines coal in Australia.<sup>104</sup>

### ***Construction Companies***

Construction companies have remained central in ODA implementation as infrastructure unchangedly takes up the largest part of the overall budget. The industry’s most important representative body is the Overseas Construction Association of Japan, Inc. (OCAJI). Although many small Japanese construction firms operating overseas are not members of OCAJI, it counts some of the largest firms among its 75 members.<sup>105</sup> In OCAJI’s relationship with JICA, information flows both ways as OCAJI carries out research and studies in recipient countries and shares findings with JICA for consideration of new projects, while it disseminates updates from JICA to its member institutions. The association also cooperates closely with consultants and trading firms on which they rely for the supply of building material, machinery and equipment. On a global scale, the percentage of overseas contract value in overall construction has been lower for Japanese firms than for US, British, French and German construction industries. In the Asian market however, Japanese contractors and subcontractors in construction have held a dominant position since the 1980s.<sup>106</sup> As Asia has always been the main target of Japanese ODA loans, overseas operating construction firms

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<sup>102</sup> McLannahan, Ben (2012), *Japan’s trading houses move into the big league*, Financial Times [www.ft.com/cms/s/0/4967164a-7feb-11e1-b4a8-00144feab49a.html#axzz3XUNIFtiE](http://www.ft.com/cms/s/0/4967164a-7feb-11e1-b4a8-00144feab49a.html#axzz3XUNIFtiE) (accessed 16.03.2015).

<sup>103</sup> Asahi Shimbun (2014), *Ōte shōsha, 7 shachū 6-sha ga zōshū zōeki 3 tsuki-ki kessan*, [www.asahi.com/articles/ASG594DY6G59ULFA013.html](http://www.asahi.com/articles/ASG594DY6G59ULFA013.html) (accessed 16.04.2015).

<sup>104</sup> Terazono, Emiko (2011), *Japan’s trading houses look to resource investments*, Financial Times, [www.ft.com/intl/cms/s/0/4ec2b6c6-1038-11e1-8211-00144feabdc0.html#axzz3XUNIFtiE](http://www.ft.com/intl/cms/s/0/4ec2b6c6-1038-11e1-8211-00144feabdc0.html#axzz3XUNIFtiE) (accessed 21.04.2015).

<sup>105</sup> OCAJI (2015), *What is OCAJI?*, [www.ocaji.or.jp/en/about/index.php](http://www.ocaji.or.jp/en/about/index.php) (accessed 08.04.2015).

<sup>106</sup> Shimizu, Hiroshi (2008), *Japanese Firms in Contemporary Singapore*, NUS Press, p. 159.

obtain a major share of their overseas business from ODA funded contracts. In FY 2013, ¥200bn or 12.5% of the ¥1,602.9bn of OCAJI members' total value of overseas construction contracts were funded by Japanese grant aid or ODA loans.<sup>107</sup>

### ***Industrial Associations***

The largest business organization in Japan is Keidanren, representing more than 1,300 companies. As many companies involved in ODA are also members of Keidanren, Keidanren has a natural interest in lobbying for policies that enhance the competitive advantage of Japanese firms in the bidding process.

In their ODA policy recommendation in 1992,<sup>108</sup> Keidanren proposed a raise of ODA to 0.7% of GNI,<sup>109</sup> and an increase in the grant ratio as grants, unlike yen loans, were fully tied at that time. In 1996, Keidanren reported that interest in ODA among Japanese corporations was decreasing due to two trends: untying loan aid, which has started in 1978 and resulted in a ratio of 97% of all loan being untied, and the appreciation of the yen until the mid 1990s,<sup>110</sup> which had made Japanese companies more expensive and thus less favorable in international competitive bidding. These claims were supported by the statistics as the share of Japanese ODA contracts won by Japanese firms had dropped from 67% in 1986 to 29% in 1993.

In 1997, a Keidanren suggested for the government to streamline aid administration through the creation of one international agency and to make greater use of the private sector's human and financial resources to improve ODA.

Next to the large industrial associations, there is a range of research institutes, consultants and associations around the smaller sectors involved in Japan's ODA, e.g. energy, medical care, telecommunication, that cooperate with JICA.<sup>111</sup>

Regarding loan projects there are the Japan Transport Cooperation Association (JTCA) and Japan Railway Technical Service (JARTS). Associated with planning and implementation of technical cooperation projects, there is the Overseas Human Resources and Industry Development Association (HIDA), which provides trainings in management and engineering overseas and in Japan within JICA technical cooperation programs. As each of these

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<sup>107</sup> OCAJI (2015), *Overseas Contracts*, [www.ocaji.or.jp/en/overseas\\_contract/](http://www.ocaji.or.jp/en/overseas_contract/) (accessed 08.04.2015).

<sup>108</sup> Söderberg, Marie (1996), *The Business of Japanese Foreign Aid*, p. 76.

<sup>109</sup> Which was the goal Japan has agreed as a DAC member.

<sup>110</sup> As a consequence of the plaza accords to depreciate the US dollar against the Yen and deutsche Mark in 1985.

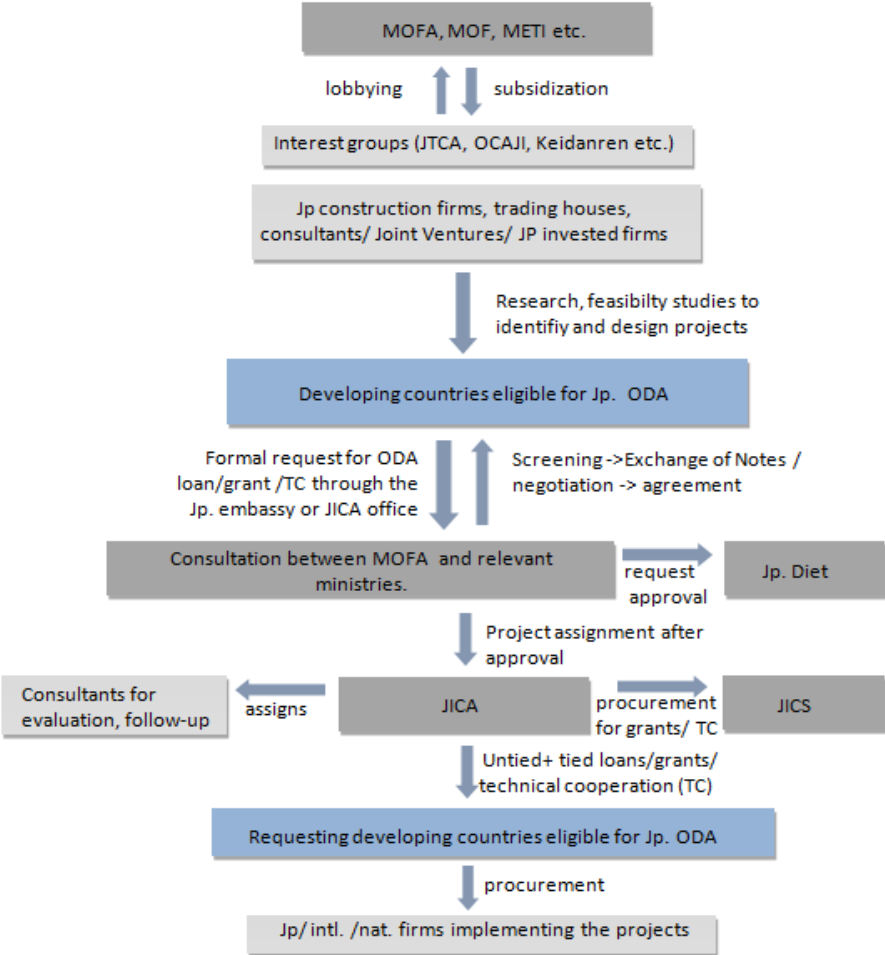
<sup>111</sup> JICA RI (2007), *Nihon no shuyō keizai kyōryoku kankei kikan*, [http://jica-ri.jica.go.jp/IFIC\\_and\\_JBICI-Studies/jica-ri/publication/archives/jbic/report/handbook/pdf/04.pdf](http://jica-ri.jica.go.jp/IFIC_and_JBICI-Studies/jica-ri/publication/archives/jbic/report/handbook/pdf/04.pdf) (accessed 08.04.2015).

associations forwards JICA’s recommendations and state regulations to their members, they partly serve as an indirect government extension into the private sector.<sup>112</sup>

Between the state and industrial associations representing the corporate private sector, influence however is mutual.

According to the abstract formal flow, the recipient government first makes an ODA request for a project, which is then passed on to JICA for further administration by MOFA, after which contractors become involved to carry out the project. In reality however, private sector institutions are often also involved in the planning stage prior to the official request as is displayed in Figure 1. Firms independently carry out studies for recipient country governments and design projects, which they would then seek to carry out once the project has been approved for procurement.

Figure 1: Implications of Japan’s request-based ODA



Source: JICA, JICS, JTCA, MOFA

<sup>112</sup> Sasada, Hironori (2013), *The Evolution of the Japanese Developmental State*, Routledge, p. 4.

### 4.5.3. Civil Society

Although the aid budget share for civilian projects is relatively small, civilian participation in providing ODA has come to fulfill a few important functions inside Japan. As one of the three measures to make ODA more effective and efficient, the revised charter of 2003 envisioned the increase of public participation.<sup>113</sup> The government's two primary channels to facilitate civilian participation in aid provision are cooperation with NGOs and direct participation schemes through the JOCV and SV volunteer programs. A collaboration scheme between JICA and Japanese NGOs has been in place since 1998.

NGOs in international development are most prominently represented through JANIC, which counts 96 member NGOs out of ca. 300 foreign aid related NGOs in Japan. As those NGOs and other forms of civil society organizations (CSO) provide an interface to garner public support for ODA, CSO representatives have been included in the expert panels drafting and revising Japan's ODA charter.<sup>114</sup> As most CSOs promote community-based aid projects addressing human security issue,<sup>115</sup> they have been vocal in their criticism large-scale infrastructure loans, and recommended aid reforms.<sup>116</sup>

#### *JOCV and SV Volunteers*

While NGOs pursue their own agendas, the JOCV and SV programs under the auspice of JICA pursue Japan's ODA objectives and count as technical cooperation that serves two outward oriented objectives and one domestic goal: to contribute to socio-economic development in recipient countries through technical assistance, improve mutual understanding, and convey global perspectives to Japanese society. The JOCV program, incepted in 1965, dispatches 20 to 39 year-old volunteers to developing countries for two years,<sup>117</sup> while the SV program, launched in 1990, dispatches volunteers aged 40 and 69 years. The program has often been compared to the American Peace Corps, the world's largest volunteer program. Together with the support pledged for CSOs, the charter openly

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<sup>113</sup> In the white paper, "public participation" also includes PPP, which has already been covered above. MOFA (2014), *Japan's Official Development Assistance White Paper 2013*, p. 146.

<sup>114</sup> Takayanagi, Akio (2014), *Japan's Ongoing Revision of the "ODA Charter"*, Reality of Aid, [www.realityofaid.org/wp-content/uploads/2014/12/11.Japan-pdf](http://www.realityofaid.org/wp-content/uploads/2014/12/11.Japan-pdf) (accessed 12.05.2015), p. 247.

<sup>115</sup> Hirata, Keiko (1998). "New Challenges to Japan's Aid: An Analysis of Aid Policy-Making", p. 329.

<sup>116</sup> JANIC (2014), *Japanese NGOs' 10 Recommendations For Revision of Japan's ODA Charter*, (accessed 09.04.2015).

<sup>117</sup> extendable by one year if requested by the recipient country.



promotes the volunteer program as a measure to harness public support for Japan's ODA policies and budgeting.<sup>118</sup>

Applicants run through a two-stage selection process and are matched according to the skills requested by the recipient countries. In 2014, a total of 1295 requests for JOCV volunteers stood against 1602 applications. Yet, only 680 were found suitable and dispatched after two months of preparatory training.

Combined, around 44,300 JOCV and SV volunteers have been dispatched to 88 countries over a span of 50 years, which has been documented by large media outlets and the JOCV related publications by JICA. As the volunteer program and large number of former volunteers has created a large data pool, the JICA RI launched the interdisciplinary research project *The Study of the JOCV* in 2011, which evaluates reports by the volunteers and internal surveys to assess both volunteers' impacts in the dispatch country as well as effects on Human Resource development in Japan.<sup>119</sup> This dual focus is reflected in the media, which had initially concentrated on stories from the work abroad and gradually included more follow-up stories on volunteers. Japan's largest newspapers Asahi and Yomiuri now frequently run stories on the career paths or returned volunteers while difficulties in re-entering employment had become the biggest obstacle to the program. As solutions, JICA established a department to support volunteers' reentrance into private firms, predominantly trading houses and consultants with ODA related-business, and local authorities, of which 31 as of 2010 had introduced quotas for hiring JOCV alumni.<sup>120</sup> While civil society and business have both been directly shaped by the reforms, the dynamics between former JOCV volunteers in ODA related businesses is difficult to measure as relevant figures are not publicly accessible.

Within the wider ODA program, volunteers abroad also contribute to the goal of "aid with a face" through their presence in public institutions like schools, health centers or public administration.<sup>121</sup> Although the number of JOCV applicants has fluctuated over the past, an increase media coverage endorsed by public figures joining the program has brought more public attention upon Japan's ODA activities in the volunteers' destination countries. Having volunteers convey Japan's ODA image to the tax-paying public in Japan and the international

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<sup>118</sup> MOFA (1995), *Japan's ODA Annual Report (Summary) 1995*.

<sup>119</sup> JICA RI (2014), *An international comparison of Overseas Volunteer Programs: Peace Corps, VSO and JOCV: JICA-RI Holds a Public Seminar*, JICA Research Institute Newsletter No. 61, p.3

<sup>120</sup> Ishikura, Yoko (2014), The Partnership between Japan Overseas Cooperation Volunteers and Japanese Corporations, World Economic Forum, [www.weforum.org/best-practices/talent-mobility/partnership-between-japan-overseas-cooperation-volunteers-and-japanes](http://www.weforum.org/best-practices/talent-mobility/partnership-between-japan-overseas-cooperation-volunteers-and-japanes) (accessed 07.03.2015).

<sup>121</sup> Tanaka, Akihiko (2014), *Building Legends in International Cooperation: An Interview with JICA President Tanaka Akihiko*, Nippon.com, <http://www.nippon.com/en/in-depth/a03404/> (accessed 25.04.2015).

community produces a picture with humanitarian assistance for LDCs at the centre: the bulk of JOCV volunteers, 37%, are dispatched to Sub-Saharan Africa, where four out of the top six JOCV recipients are LDCs, followed by Asia (28%).<sup>122</sup> While the actual bulk of Japan's total ODA is comprised of infrastructure loans to South East Asia, the JOCV volunteers' concentration in Sub-Saharan Africa supports Japan's grant-based aid strategy for the region, which is manifested around the flagship conference TICAD,<sup>123</sup> launched along the adoption of the first ODA charter and reoccurring in five-year-circles.

## 5. Analysis

### 5.1. Reform Background

In the discourse on foreign aid, Japan's ODA has never been presented in a way that presents lessons for ODA practices and has been criticized for a lack of ideology.<sup>124</sup> In 1992 however, an ODA Charter has been installed which has been revised in 2003 and 2015 to develop Japan's ODA ideologically and structurally, and to respond to changes in Japan's foreign policies. In order to explore how the reforms shaped the role of the private sector in ODA implementation, it is important outline which institutions drove the reforms and what their motives and goals were.

### 5.2. Domestic Drivers of Change

MOFA first demanded more unity in Japanese ODA administration in their report "State and the Future Problems of Overseas Economic Cooperation" of 1961,<sup>125</sup> when the EPA had the mandate to negotiate with foreign counterparts on behalf of the ministries while project implementation however remained at the discretion of the ministries.<sup>126</sup>

As the cumulated aid budget grew larger MOFA attempted to consolidate administrative mandates into a new administrative body. Despite the creation of ministerial councils and other consolidation efforts, neither a ministry solely responsible for ODA as Germany's

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<sup>122</sup> Top 6 ODA recipients are Cote D'Ivoire, Tanzania, Madagascar, Somalia, Sierra Leone and Mozambique, while the top JOCV countries are Kenya, Senegal, Tanzania, Ghana, Malawi and Zambia. JICA (2012), *What Japan Can Do for the World, What You Can Do for the World – JICA's Overseas Volunteers*, JICA publications, p. 6.

<sup>123</sup> Tokyo International Conference on African Development

<sup>124</sup> Arase, David (2005), *Japan's Foreign Aid*, Routledge, p. 15.

<sup>125</sup> Sato, Jin (2015), *The Benefits of Unification Failure*, p. 8.

<sup>126</sup> Sato, Jin (2015), *The Benefits of Unification Failure*, p. 15.

ministry for economic development cooperation (BMZ), nor a Diet-enacted law to regulate aid like the US Foreign Assistance Act has emerged.<sup>127</sup>

Instead, several ministries, at the forefront MOFA, MOF, MITI, and EPA continued to devise their own projects and dispatch experts. According to JICA-RI's Jin Sato, only 26% of the 30,445 experts involved throughout the 1990s were dispatched by JICA, while the rest was divided between other ministries.<sup>128</sup>

Due to the fragmented dispatch of experts and a rising aid budget, the ministries increasingly contracted external experts and therein spurred expansion of domestic aid-related businesses to the point where the number of contracted experts exceeded those of internal ones in 1994.<sup>129</sup> The first charter of 1992 had supported this trend in its declaration to further deepen private sector involvement while strengthening coordination through JICA and OECF.<sup>130</sup> Against this background, it becomes clear that the subsequent reforms did not just respond to DAC commitments, but also followed an endogenous MOFA-driven push towards more streamline administration. Further, before the merger of JICA and JBIC in 2008, the agencies had sought closer coordination.<sup>131</sup>

### **5.2.1. International Declarations**

#### ***OECD Declarations***

In 2001 OECD Recommendation on Untying aid for LDCs (amended in 2006 and in 2008), in which all DAC members agreed to untie most types of aid to LDCs with the common exceptions free-standing TC and food aid. The recommendations and status of tied aid played a central role in the OECD's four subsequent High Level Fora (HLF) on Aid Effectiveness, Rome (2003), Paris (2005), Accra (2008) and Busan (2011) which provide reference base in academic works analyzing or comparing Japan's ODA as Japan as a DAC member has endorsed the foras' declarations.<sup>132</sup> Most important for the issue around Japan's status of untied aid were the Paris Declaration 2005, which added a qualitative component to the 2001 recommendations known as 'Indicator 8', declaring that untying aid generally improves aid effectiveness through reduced transaction costs and enhances country ownership and alignment. The Accra Agenda for Action 2008 called for DAC members to draft a plan to

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<sup>127</sup> Orr, Robert M. Jr. (1990), *The Emergence of Japan's Foreign Aid Power*, p. 21.

<sup>128</sup> Sato, Jin (2015), *The Benefits of Unification Failure*, p. 17.

<sup>129</sup> Sato, Jin (2015), *The Benefits of Unification Failure*, p. 19.

<sup>130</sup> MOFA (1992), *Japan's Official Development Assistance Charter*, <http://www.mofa.go.jp/policy/oda/summary/1999/ref1.html> (accessed 29.01.2015).

<sup>131</sup> Tsunekawa, Keiichi (2014), *Objectives and Institutions for Japan's ODA*, p. 18.

<sup>132</sup> OECD (2015), *The High Level Fora on Aid Effectiveness: A history*, [www.oecd.org/dac/effectiveness/thehighlevelforaonaideffectivenessahistory.htm](http://www.oecd.org/dac/effectiveness/thehighlevelforaonaideffectivenessahistory.htm) (accessed 26.04.2015).

maximize untying of aid by 2010 and stressed the importance of civil society. In Accra, commitment to “untie aid to the maximum extent” was unanimously pledged while in Busan the acceleration of untying efforts along with improvement of the reporting on the tying status were decided.<sup>133</sup> Although these declarations harmonize with official MOFA and JICA RI statements which highlight Japan’s achievements in the emerging aid modality of triangular/south-south cooperation debated in the HLFs,<sup>134</sup> reporting and status of untied aid central in Accra and Busan remain issues of tense dispute between Japan and the OECD’s Development Co-operation Directorate (DCD-DAC), which heavily criticized that Japan and the US are the only DAC members which have not untied their aid beyond the categories listed in the official DAC Recommendation.<sup>135</sup>

**5.2.2. The ODA Charter and Domestic Reforms**

Although academia may suggest that Japan’s lack of an overarching ODA philosophy has been mainly criticized by external institutions as the DAC,<sup>136</sup> Japanese CSOs have long demanded cohesive principles and a human-focused approach. Investigating the government’s ODA reform ambitions, CSOs must be included as an influence factor along the industrial lobby groups as Keidanren, ECFA or JTCA, ministerial power ambitions and external pressures.

Table 2: Chronological Overview of Structural ODA Changes

Chronological overview of structural ODA changes		
Year	Reform	Changes on Decision-making /administration/ implementation
1992	ODA Charter, supported by Medium-Term Policy Targets (every five years)	<ul style="list-style-type: none"> <li>Introducing aid philosophy, implementation guidelines and four official principles (environmental conservatism, ruled out military</li> </ul>

<sup>133</sup> Nicol, William/ Gordon , Ann (2013), *Aid Untying – 2012 report*, OECD publications, p.3, [www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DCD/DAC%282012%2939/FINAL&docLanguage=En](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DCD/DAC%282012%2939/FINAL&docLanguage=En) (accessed 26.04.2015).

<sup>134</sup> JICA-RI (2011) *Busan High-Level Forum Marked a Turning Point of Aid Industry*, JICA RI [http://jica-ri.jica.go.jp/topic/busan\\_high-level\\_forum\\_marked\\_a\\_turning\\_point\\_of\\_aid\\_industry.html](http://jica-ri.jica.go.jp/topic/busan_high-level_forum_marked_a_turning_point_of_aid_industry.html) (accessed 26.04.2015).

<sup>135</sup> In the follow-up of the Busan HLF 2011, DCD-DAC representative William Nicol condemned the positions presented by the US and Japan delegates strongly and with blunt language. Interview available at: Marquard-Busk, Una (2013), *DAC and The Road to Busan*, Roskilde Universitetscenter's Digitale Arkiv, p. 12.

<sup>136</sup> Tsunekawa, Keiichi (2014), *Objectives and Institutions for Japan’s ODA*, p. 2.

		<p>support, promotion of peace, and human security)</p> <ul style="list-style-type: none"> <li>• “Broader participation of people”<sup>137</sup>; increased visibility of aid as accountably spent tax money in the Japanese public</li> </ul>
1993	TICAD I, co-hosted with UN and held every five years subsequently	<ul style="list-style-type: none"> <li>• New, proactive pattern of aid with more allocation according to Charta principles and recipients commitment to good governance</li> </ul>
1999	Founding of Japan International Cooperation System (JICS)	<ul style="list-style-type: none"> <li>• Launch of independent procurement agency for grant aid and technical cooperation to ensure fair, (corruption-free) and increase “visibility of Japanese aid”<sup>138</sup></li> </ul>
2003	Revision of ODA charter following unprecedented public hearing and public dialogue through online and print media	<ul style="list-style-type: none"> <li>• Overseas Economic Cooperation Fund (OECF) and the EXIM Bank of Japan are merged into the Japan Bank for International Cooperation (JBIC)</li> <li>• Re-launch of JICA as independent administrative institution, Expansion of overseas offices and fields missions.</li> <li>• More sovereignty for MOFA coordinating overall ODA policies</li> <li>• Country-based task force and new country assistance programs</li> <li>• Increase of public participation More support for NGOs</li> </ul>
2008	Re-launch of JICA	<ul style="list-style-type: none"> <li>• JBIC (incl. their yen loan and grant aid section) were amalgated with the new JICA, more duties were transferred from MOFA to the new JICA<sup>139</sup></li> </ul>
2009	Restructuring of MOFA International Co-operation Bureau	<ul style="list-style-type: none"> <li>• MOFA’s ODA policy devising bureau restructured according to regions instead of aid modalities to improve country-based approach</li> </ul>
2015	2 <sup>nd</sup> revision of ODA charter	<ul style="list-style-type: none"> <li>• Abe’s ‘Proactive pacifism’ for more active role in world affairs - ODA becomes more strategic tool in Japan’s 2013 announced first national security strategy: aid open for non-combat capacities of foreign militaries (overrides DAC-imposed ban on assistance to high-income-countries and frees up aid to e.g. long-standing requests by Persian Gulf economies)<sup>140</sup></li> <li>• Stronger promotion of PPP and more collaboration with NGOs</li> </ul>

Source: MOFA

<sup>137</sup> MOFA (1994) Japan's ODA Annual Report (Summary) 1994, Tokyo, <http://www.mofa.go.jp/policy/oda/summary/1994/3.html#3> (accessed 01.05.2015).

<sup>138</sup> JICS (2013), *Toward a World Without Mines*, JICS Publications, p. 3.

<sup>2</sup>Jain, Purnendra (2014), *The politics of Japan’s new aid charter*, East Asia Forum [www.eastasiaforum.org/2014/12/15/japans-new-aid-charter-shifts-into-domestic-and-regional-political-arena/](http://www.eastasiaforum.org/2014/12/15/japans-new-aid-charter-shifts-into-domestic-and-regional-political-arena/) (accessed 20.03.2015).

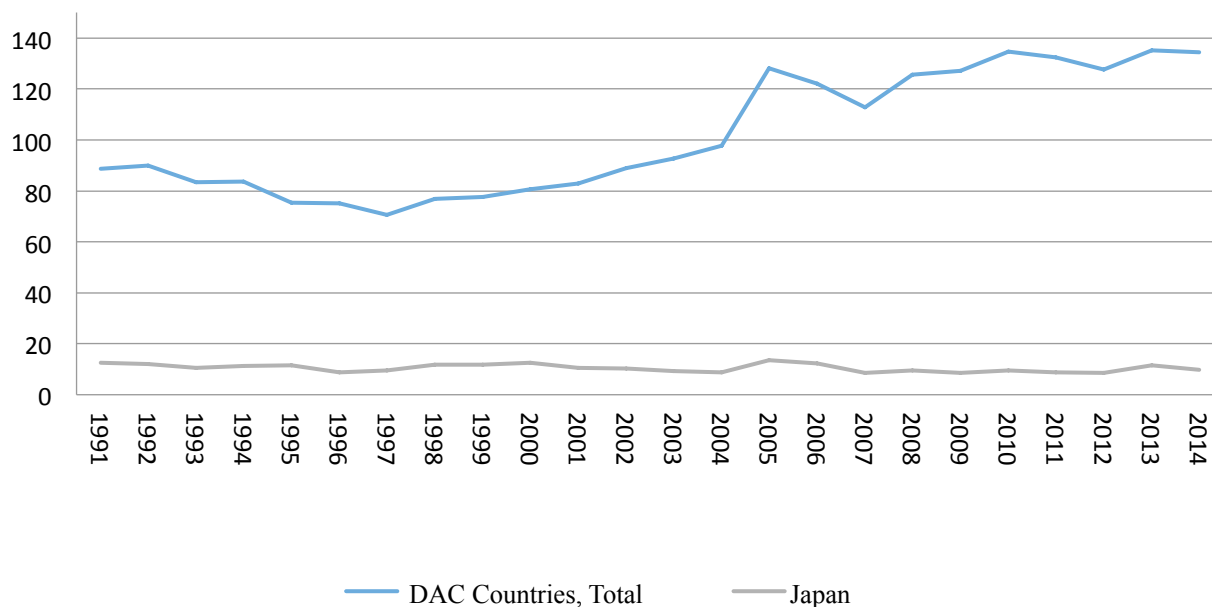
<sup>140</sup>Nikkei Asian Review (2015), *Japan's new aid charter thinks outside old ODA box*, <http://asia.nikkei.com/Politics-Economy/International-Relations/Japans-new-aid-charter-thinks-outside-old-ODA-box> (accessed 20.02.2015).

### 5.3. Indicators

As part of the reform efforts JICA has fulfilled their pledge to make data about ODA disbursement more transparent and accessible, yet inconsistency in the availability and arrangement of data remains and has hampered the tracking of some variables from FY1991-FY2014. OECD data on the other hand is more consistent; however discrepancies between values (specifically regarding the tying status) exist.

To put the ODA reforms into perspective, it is important to begin with the observation that the budget has remained relatively constant against the rising DAC trend, which signals that the adjustments affected the composition, not the size of the ODA budget. However, it must be remarked that net disbursements exclude loan repayments,<sup>141</sup> and that policy changes translate into statistical figures with a significant time lag due to consultation and negotiation phases forgoing bilateral agreements and disbursements.

Figure 2: ODA net disbursement FY 1991- FY 2014, bn USD (constant prices)



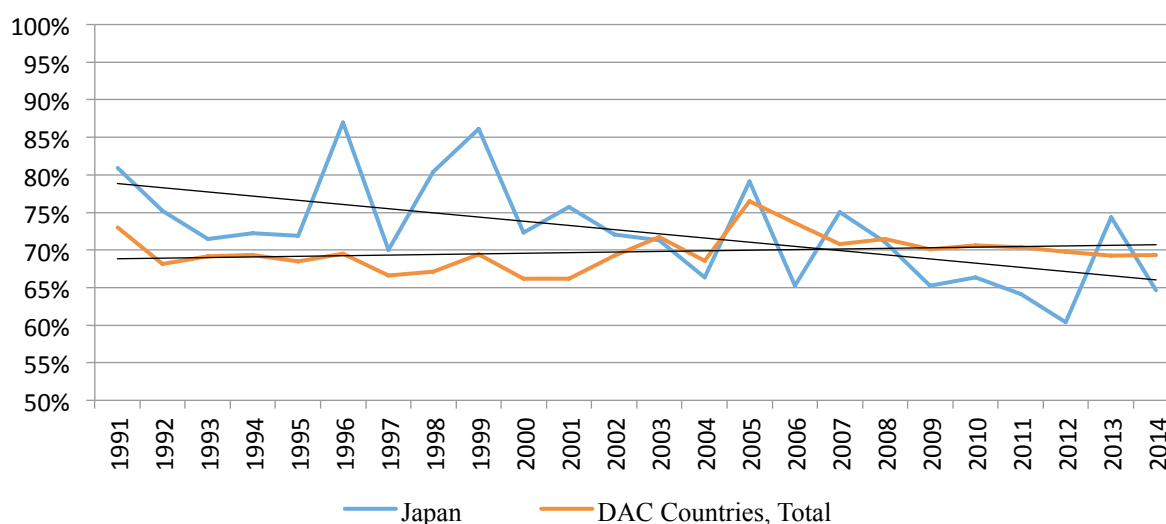
Source: OECD StatExtracts

<sup>141</sup> gradual increases of the loan budget may not be reflected for they would be offset by the repayments.

## *Industrial Contractors*

Many western observers with affiliation towards the DAC guidelines continuously associate Japan's high share of bilateral aid with an interest to increase the visibility of aid and the unrestrained pursuit of commercial interests in the form of infrastructure projects awarded to Japanese construction firms.<sup>142</sup> While MOFA has started to attach the goal of increased visibility of aid to its official documents since the inception of the first ODA Charter, the share of bilateral aid has followed a decreasing trend over the span of two decades against a slight increase of the DAC average as the trending lines in Figure 3 show. Moreover, the claim of a direct connection between bilateral aid allocation and infrastructural interests must be carefully evaluated as the share of Japan's ODA funds for economic infrastructure in total ODA has increased over the same time span, albeit with greater volatility. This divergence must be interpreted in the context of how Japan disburses aid through multilateral channels: Japan's provides more than half of its multilateral aid funds to the World Bank Group,<sup>143</sup> where it holds 8% voting rights,<sup>144</sup> followed by subscription to the ADB, where Japan holds 13% voting rights.

Figure 3: Share of net bilateral ODA FY1991 – FY2014



Source: OECD StatExtracts

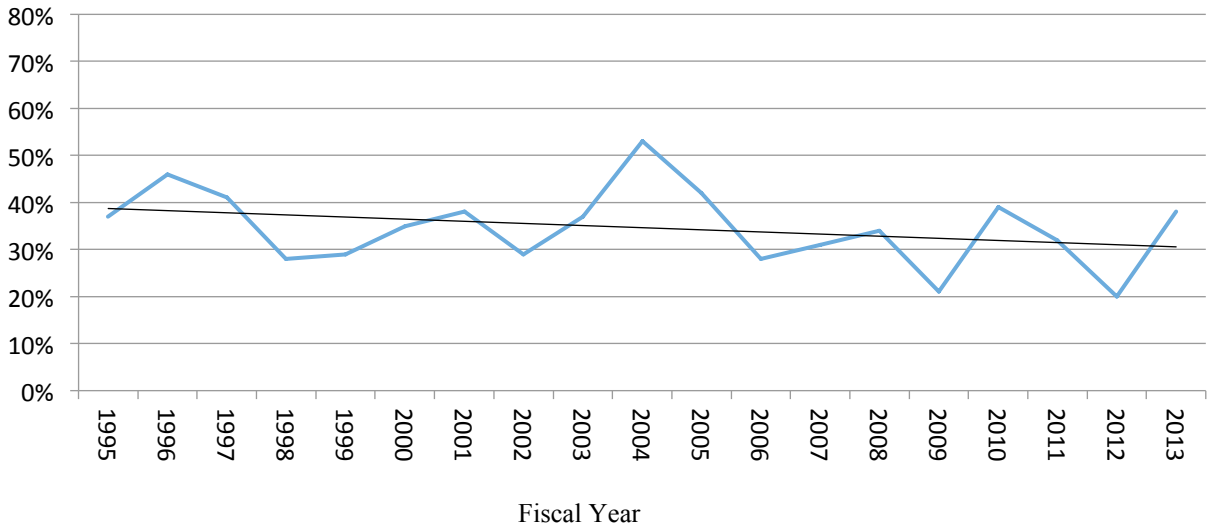
<sup>142</sup> West, John (2014), *Japan's muddled development cooperation*, Asian Century Institute, [www.asiancenturyinstitute.com/development/120-japan-s-muddled-development-cooperation](http://www.asiancenturyinstitute.com/development/120-japan-s-muddled-development-cooperation) (accessed 02.05.2015).

<sup>143</sup> OECD (2014), *Multilateral Aid Report 2013*, p. 84, [www.oecd.org/dac/aid-architecture/2013%20Multilateral%20Aid%20Report.pdf](http://www.oecd.org/dac/aid-architecture/2013%20Multilateral%20Aid%20Report.pdf) (accessed 12.05.2015).

<sup>144</sup> World Bank (2015), *Board of Directors – Voting Powers*, [www.worldbank.org/en/about/leadership/VotingPowers](http://www.worldbank.org/en/about/leadership/VotingPowers) (accessed 12.05.2015).

As the share of bilateral aid remains high, indications for the involvement of Japanese contractors in the implementation of bilateral aid are the tying status, reflecting the government’s incentives for Japanese industries, and the share of Japan-funded ODA contracts awarded to Japanese firms, which represents Japanese industrial involvement in aid provision within untied aid. After reaching a peak value of 93% untied ODA in FY2007, the tying status has decreased to 79% untied ODA in FY2013.<sup>145</sup> Interestingly, the reversing trend of the tying status has not resulted in a clear relative rise of ODA contracts awarded to Japanese companies as shown in Figure 4. Instead, a long-term decrease can be seen, although the reports have not stated how Japanese-invested foreign firms and joint ventures were accounted for. This, however, can make significant difference: according to OCAJI, representing Japanese construction industries with overseas operations, funds allocated to Japanese overseas affiliated companies have been rising steadily after the slump caused by the 2007/08 financial crisis, whereas funds allocated to parent companies have been more volatile.<sup>146</sup>

Figure 4: Share of ODA loan contracts awarded to Japanese contractor (foreign currency only)



Source: JICA, JBIC Annual Reports

<sup>145</sup> JICA (2014), Annual Report 2014: Statistics on Program Results, p. 27. [www.jica.go.jp/english/publications/reports/annual/2014/c8h0vm000090s8nn-att/2014\\_s02.pdf](http://www.jica.go.jp/english/publications/reports/annual/2014/c8h0vm000090s8nn-att/2014_s02.pdf) (accessed 10.04.2015).

<sup>146</sup> OCAJI (2015), *Overseas Contracts*, [www.ocaji.or.jp/en/overseas\\_contract/](http://www.ocaji.or.jp/en/overseas_contract/) (accessed 25.04.2015).



Further ambiguity arises from the fact that the mere number of contracts has limited significance as an indicator for business involvement without respecting the volumes in budgets acquired through contracts.

A trend that is not referenced in official ODA statistics is the structural change among ODA-affiliated consulting, trading and construction firms. A first clue was given by Practitioner 1, a woman working for an ODA consulting firm, who said:

“many of the smaller consulting firms like my employer, with less than 50 employees, have higher shares of women because they either work in part-time positions or fixed-term. [...] The competition in the bidding process (for ODA tenders) has become very strong over the last years, each year consulting firms are competing for smaller sums.”

While these statements back Keidanren’s prediction of decreasing profitability of ODA-business, small firms seem to have sustained through adjustments such as part-time employment schemes.

When asking Practitioner 2, a man working in a small-size trading firm procuring equipment for various project types about trends in his business of ODA-related trading firms, his statements supported the observations of Practitioner 1:

“Fluctuation (in trading firms) is very high. In my firm, many only stay for 1-2 years because the work is very demanding and bidding is very competitive and stressful. [...] We are not member of any association; we are just a small firm. But we operate in many countries. ”

### ***Civil Society***

Upon further asking how a firm of this size managed to be involved in many countries and projects, he explained that the firm usually hires external engineers on project basis. Moreover, when the author asked him how long he had been in the firm, he replied that he was in his fourth year and further talked about how he first came in touch with ODA when he was a JOCV volunteer to Zambia. Although he did not imply a connection between his volunteer experience and his comparably long employment in an ODA-affiliated firm, his career path hints at the emerging overlapping area between civil society and contractors within the public sector as the implementing institution of ODA.

To the question about their future career plans, four out of six former volunteers replied that they aspire to work in an ODA related job.<sup>147</sup> Further, when describing their assigned

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<sup>147</sup> The other two volunteers responded that they were still undecided.

activities while abroad and their contact with JICA during that time, all volunteers added that they were given opportunities to visit other Japanese ODA project sites in the country and two volunteers, dispatched to Laos and Tonga, mentioned their presence at a high level visit by Japanese officials, where volunteers were given a platform for direct feedback additionally to the five reports they have to write throughout their two-year assignment. These incidences reported by JOCV volunteers align with the image about the JOCV program as integrated into Japan's overall aid strategy, which is created by the media, which has reported stories of volunteer initiatives to engage in the debate about aid effectiveness abroad and after their return.<sup>148</sup>

Coming back to MOFA's declared intent to increase public participation and visibility of aid in Japan, which was apprehended by the revised ODA charter 2003, five of the six interviewed volunteers reported that they had given lectures in schools about their dispatch countries as part of global education classes, which is organized and compensated by JICA.<sup>149</sup> The perhaps most visible initiative to enhance communication of Japan's aid activity to the public through the support of former volunteers is the 2006 opened JICA Global Plaza.<sup>150</sup> Inside the six-storey JICA Ichigaya building hosting the Global Plaza, which serves as a visitor and training center open to the public and foreign delegations, the elaborately decorated Global Plaza, which is exclusively staffed with former volunteers, is the first facet of JICA visitors see upon entrance.

In 1994, the number of annually dispatched volunteers exceeded 1,000 for the first time and has averaged around 1,250 until the Fukushima Daiichi triple disaster in 2011, when the number fell short of a 1,000 for the first time again. Since the number of dispatched volunteers is the result of annual negotiations between eligible,<sup>151</sup> requesting recipient governments and JICA, as was explained by the interviewee JICA employee 2, the number does not reflect how many applicants are actually interested in volunteering due to the discrepancy between available skillsets, mostly within education, and the demanded skills, particularly health care professionals. The number of annual applicants however, has not been consistently featured in the annual JICA reports, although the available data suggests a sharp decrease from a peak value of 9,841 applicants in 2003 to 5,857 in 2006, to a new low of

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<sup>148</sup> Yomiuri (2002), *Logistics hamper Ethiopian aid distribution*, Yomiuri Shimbun 2002.08.28 edition.

<sup>149</sup> Volunteers present their own prepared material/footage during lectures, which are compensated with ¥10,000, equivalent to ca. \$80.

<sup>150</sup> JICA (2009), *Window to the World*, [www.jica.go.jp/hiroba/english/plaza.html](http://www.jica.go.jp/hiroba/english/plaza.html) (accesses 20.01.2015).

<sup>151</sup> Meaning whether the general dispatch of volunteers has previously been agreed upon by both governments.

1,612 applicants in 2014.<sup>152</sup> Whether this trend signifies eventual aid fatigue, employment insecurities, or a diversion of potential volunteers to NGOs cannot be established at this point, but further studies building up on this observation, and also taking into account the consequences of the newly revised ODA charter of 2015, would be a valuable contribution to the discourse.

## **6. Conclusion and Outlook**

### **6.1. Conclusion**

Around two and half decades ago, when Japan had risen to become the world's largest donor country of foreign aid, the numerical superlative alone had not sufficed to make Japan a country, from which academics would draw positive lessons from for other ODA donor countries to follow.

It did however, bring more attention to its ODA system, so that knowledge about it in a Western-led discourse on aid accumulated. The observations by Rix, Orr and Ensign in the early 1990s portrayed Japan's ODA decision-making as highly fragmented through the competing interests between the ministries and their agencies, the administration low-capacity and noncohesive due to separate channels handling grants, yen loans and technical cooperation. Lastly, aid implementation was heavily relying on and beneficial to Japan's corporate sector as it was focused on large-scale infrastructure projects in Asia, where Japanese firms established themselves through trade relations and influenced aid flows through the request-based system of Japan's ODA.

Through the introduction of an official ODA charter in 1992 and further reforms thereafter, Japan's foreign aid was gradually pegged to guidelines and principles and managed by a consolidated ODA administration. As a consequence, several recommendations by the OECD's DAC peer reviews have been met over the years, although several of those recommendations were overlapping with demands by domestic interest groups as Keidanren or JANIC. Changes include the initial untying of aid; adoption of a country-based approach responsive to the diverse conditions and development demands; focus on human security, societal and environmental issues, and inclusion of civil society institutions in both Japan and the recipient countries.

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<sup>152</sup> Values taken from the respective JICA annual report at [www.jica.go.jp/english/publications/reports/annual/](http://www.jica.go.jp/english/publications/reports/annual/) (accessed 20.01.2015).

At the same time recommendations not met include a shift towards a larger proportion of grant aid; more policy coherence; and an overhaul of the staffing capacity in its aid administration as JICA is continuously criticized as understaffed.

In order to comprehend this development, a basic insight into Japan's internal drivers of change and power relationship between the government, the administration and the private sector is imperative.

### ***Closing the ODA Triangle of Power***

The conclusions by Rix, Orr and Ensign that no single motive dominates Japanese ODA prevails, yet reform efforts to include more humanitarian aspects through soft aid modalities have become more visible while they have simultaneously altered the mode of aid implementation. As the charter concentrated more coordination power around MOFA and its adjunct agency JICA, which has originally coordinated technical cooperation, power was shifted away from the corporate private sector, whose interests are represented through METI and the other industry-related ministries.

As Japanese ODA remains officially request-based however, Japanese industries can still influence aid projects through their research efforts in recipient countries although the profitability of aid has been curbed through the untying of aid and appreciation of the Yen, meaning that Japanese firms have increasingly been exposed to international competition. Despite some setbacks in the trend, as the introduction of tied STEP loans, the share of ODA contracts won by Japanese firms has decreased.

The influence of the corporate private sector has further been relativized through governmental efforts to utilize ODA as a foreign policy tool to pursue geopolitical security interests. This development is most obviously expressed in prime minister Abe's stated commitment to 'proactive pacifism' and the accordingly revised ODA charter of 2015, which opens up aid for foreign military.

### ***Relocating Japan's Private Sector in Aid Implementation***

After the financial crisis 2007/08, aid budgets have become a sensible issue in many of the DAC member states as economic strife negatively affects public support for tax money flowing abroad.

Facing the 'lost decade' after the asset price bubble burst in the early 1990s, the Japanese strategy to recapture public support was to increase civilian participation through closer

cooperation with civil society groups and to heighten attention for the longstanding JOCV volunteer program, while it was gradually expanded. Integrating volunteers better into the aid implementation moreover contributed to the goal of making aid more visible. However, growing concerns over employment prospects post-return are likely to have caused the decreasing application numbers in the last decade. Ironically, this trend is also linked to the lowered profitability and grown competition in the corporate sector as firms with ODA-related business are the desirable employers for former volunteers. Even though this precise linkage requires more in-depth study, it is beyond question that the structural reforms have brought about more inclusion of civil society in the private sector's role in aid implementation. The corporate part has not lost significance, yet has been faced with more competition.

## 6.2. Outlook

2015 marks a pivotal year for development cooperation as the UN MDGs will expire and be succeeded by a new set of goals to be decided at the UN Summit on Sustainable Development in September 2015.<sup>153</sup> These new Sustainable Development Goals will have direct impact on the work of the DAC and further, draw attention to the rapidly growing aid sums by emerging donors such as China, which will incept the new development financing institution AIIB by the end of 2015, and the other BRICS states. Although there are opportunities in the coming funds, the DAC, having long worked towards common guidelines for aid, sees reason for concern: rising and mostly tied aid by NDDs is seen as “the elephant in the room”.<sup>154</sup>

As established donor institutions are reforming to meet increasing budget restraints whilst new donor countries and intuitions like the AIIB emerge, the international aid/development cooperation order is clearly in transition, and the debate on how aid should be provided is going to be co-determined by these new donors. For this reason, understanding Japan's aid model and why it continues to rely so heavily on its own private sector for implementation, albeit with more civil participation now, could bridge what many perceive as a divergence between the western, OECD-led aid rationale and the (now branded as) China-led principles of non-interference, infrastructure- based help for self-help.

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<sup>153</sup> UN (2015), *United Nations Summit to adopt the post-2015 development agenda*, Sustainable Development Knowledge Platform, <https://sustainabledevelopment.un.org/post2015/summit> (accessed 28.03.2015).

<sup>154</sup> Clay, Edward J./ Geddes, Matthew/ Natali, Luisa/ te Velde, Dirk Willem (2008), *Thematic Study, The Developmental Effectiveness of Untied Aid*, p. ix.

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## Appendix

### Interview Questions

*The following are the questions asked at the beginning of all interviews. Except for two interviews, all interviews were recorded with a smart phone from the first question on. Prior to asking the prepared the questions, the author introduced herself, her university affiliation, and topic and purpose of her thesis. The interviewees briefly introduced themselves by name and professional background, which was not recorded to guarantee anonymity.*

- Q1. Could you briefly describe what it is that you were or are doing within ODA?
- Q2. How long have you been active in this position?
- Q3. What type of projects were you working on?
- Q4. What is your experience and work relation with JICA?
- Q5. Have you heard about the ODA Charter and if so, what do you know about it?

*The Questions below were only asked in the interviews with the former JOCV volunteers.*

- Q6. How have you learned about the JOCV program and what was your motivation to apply for it?
- Q7. When and where have you been dispatched to as a JOCV volunteer?
- Q8. Was your work assessed by JICA or a third party while you were dispatched?
- Q9. Were you informed about Japan's ODA projects in the country of your dispatch and if so, what are they?
- Q10. To what extent did you interact with locals and other volunteers during your volunteer assignment?
- Q11. What are your career plans?

*The following questions were used in the interviews with the three practitioners in aid-related business (one consultant and two employees of a trading firm specialized on ODA projects)*

- Q11. Are the projects you are working with loan aid, grant aid or technical cooperation?
- Q12. Is your firm member of a representative association?
- Q13. Do your correspond with other firms and/or governmental organizations for your work and if so, which ones?
- Q12. Have you experienced changes in the bidding process for projects?
- Q13. Have you as part of you work position traveled to the recipient countries?

*In the interview with the JICA employees, questions were specifically asked in correspondence to their respective departments and locations and full discretion has been guaranteed by initiative of the author.*