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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 its aid implementation. This thesis undertook 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 government prior to the reforms. Triangulation of quantitative data from MOFA and OECD statistics with qualitative data from interviews with non-commercial 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 non-commercial part has gained more weight in aid implementation.

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

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 my preparedness for Tokyo's January weather. As it turned out, Tokyo's winter offered nothing anyone from Sweden would not be perfectly accustomed to; however, upon starting the course at Waseda University there quickly came the realization that 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 to be 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 sharing their invaluable time, knowledge and contacts. 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 Dr Ming Chee Ang, to whom I am very thankful.

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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

Introduction

Background

In the last three decades, Japan has drawn wider academic attention to its foreign policy focus on official development assistance (ODA),¹ 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 concentrated on 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 had been involved, which added to the intricacy.

Responding to the increased complexity and external and internal pressures, a series of administrative reforms aiming 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, foremost in the form of an official ODA Charter adopted in 1992, which has been revised in 2003 and in 2015.² These political and administrative changes have altered Japan's 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 as opposed to a small number of administrators, and its ODA

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

² With the adoption of the Development Cooperation Charter in 2015, the Japanese government has replaced the terminology of 'ODA' with 'Development Cooperation', which reflects the linguistic shift currently underway within the OECD's DAC and the wider aid/development community.

composition of mostly 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 non-profit 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 agreement reached by two state leaders on the one hand 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. The sixth and final chapter rounds up the main findings and offers an outlook with respect to contemporary global developments in aid.

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 an 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,³ Japanese aid has generally not been presented as a model holding lessons for other industrialized economies in the Western-dominated academic landscape.⁴ This view merged into the narrative of the

³ Feasel, Edward M. (2014), *Japan's Aid: Lessons for Economic Growth, Development and Political Economy*, Routledge, p. 97.

⁴ Söderberg, Marie (2005), "Swedish perceptions of Japanese ODA" in: David Arase (2005), *Japan's Foreign Aid: Old continuities and new directions*. Routledge, p. 81.

Japanese economy as a cautionary tale for failed financial policies, which has dominated the international debate following Japan's persistent deflationary crises.⁵

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,⁶ with the largest spike of 37% from 2012 in real terms coming from Japan, which contributed a net ODA of \$11.8bn,⁷ the fourth largest amount after the USA (\$31.5bn), UK (\$18bn) and Germany (\$14bn).⁸

In Japan, this increased ODA commitment was perceived well as it coincided with the 60th anniversary of its ODA programme 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 important depth to the debate.

In order to comprehend these consequences, a basic understanding of Japan's principle ODA structures must be established first: 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, who are directly involved in ODA programmes,⁹ are comprised of young and senior volunteers dispatched to developing countries for two years, as well as a smaller share of volunteers dispatched to support Japanese diaspora, known as Nikkei communities.

⁵ Krugman, Paul (2014), "Apologizing to Japan", *The Economist View*, economistsview.typepad.com/economistsview/2014/10/paul-krugman-apologizing-to-japan-.html, (accessed 21.01.2014).

⁶ United Nations (2014), *The Millennium Development Goals Report 2014*, p.4. www.un.org/millenniumgoals/2014%20MDG%20report/MDG%202014%20English%20web.pdf (accessed 19.03.2015).

⁷ 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).

⁸ 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 (accessed 02.04.2015).

⁹ As opposed to volunteers active in aid related but independent NGOs, which may receive state support within the ODA budget.

Research Question

To answer the overarching question of 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 raised 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 have outbound volunteers come to play in Japan's ODA provision? And finally: What is the link between aid volunteers, business and politics?

Also, an implicit concluding question is: What lessons can be added to a general knowledge pool for donor countries?

Study Contribution

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

Second, while the literature on foreign aid predominantly focuses on political motives, the evaluation of projects, and aid effectiveness in the recipient countries, this thesis seeks to draw more attention to internal dynamics such as the consolidation of bureaucracy. This aspect is highly relevant in regard to both the growing scene of emerging donors and established 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 by any other DAC donor. In particular, emerging Asian donors like Thailand, Malaysia or Indonesia, where Japan has been the largest bilateral donor, are likely to design aid schemes similar to Japanese ODA,¹⁰ as has been the case for Korea as a new DAC donor.¹¹

Furthermore, 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.¹²

In addition, pointing out praise and criticism of Japan's aid development holds value for donor countries that have recently conducted relatable

¹⁰ 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 (accessed 12.03.2015).

¹¹ 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 (accessed 08.03.2015).

¹² Ceriani, Lidia/ Verme, Paolo (2014), "The Income Lever and the Allocation of Aid", *The Journal of Development Studies*, Vol. 50, No. 11, p.1520.

organizational amalgamation within their ODA administrations, like Germany, Canada and Australia.¹³

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. And for those not concerned with Japanese ODA or the subject of development assistance altogether, it will provide an understanding of basic ODA mechanisms and sensitize the reader to the multitude of variables that determine how and by whom aid projects are implemented.

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 domestic processes vital to the implementation of aid projects. While there is a growing tendency for studies on Private Public Partnerships (PPP) in development cooperation, the distinction between companies' independent investments with state support/collaboration and state projects in which companies act as mere contractors without equity, is often not clear enough.

Further, industry-related consequences of ODA policies require particular attention in Japan's case, where the ODA budget's loan share is greater than in any other DAC country and mainly funds 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 such scholarship has largely been produced by Anglo-Saxon and European scholars, who are mostly 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*. Feasel provides detailed econometric and political contexts for the evolution of Japan's ODA policies. Moreover, by adopting a comparative approach between Japan and other donors, he outlines 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 China's and India's emphasis on infrastructure development to achieve economic growth and poverty reduction as opposed to a Western soft-aid focus with good-governance conditionality, it is

¹³ Troilo, Pete (2015), *Inside the takedowns of AusAID and CIDA*, Devex, www.devex.com/news/inside-the-takedowns-of-ausaid-and-cida-85278 (accessed 08.03.2015).

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*, who focuses on Japan's ODA administration and implementation, is Australian professor of Japanese Studies, Alan Rix. His 1993 book *Japan's Foreign Aid Challenge* and 1980 book *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 [...]'.¹⁴

In a similar fashion as Rix, who was first to establish 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, the qualitative depth of Orr's analysis was unprecedented. A Political Science professor at Temple University in Tokyo at the time of writing, Orr's experience in Japanese academia and previous career as a US diplomat had equipped him with an elaborate network in Japan's top decision-making spheres.¹⁵ Drawing on his rich repertoire of contacts enabled him to add valuable insights and opinions from Japanese policy-makers, bureaucrats, industries and independent analysts.¹⁶

The tendency of scholars inside rather than those outside Japan to deem relations within the government and 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 that are relatively unknown despite their great influence, are: *Doing Good or Doing Well? Japan's Foreign Aid Program* from 1992 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 whom Japan's bilateral aid projects are planned and

¹⁴ Rix, Alan (1980), *Japan's Economic Aid: Policy-making and Politics*, Martin's Press, p. 12

¹⁵ Temple University Japan Campus (2013), Robert M. Orr, <http://www.tuj.ac.jp/icas/speaker/robert-m-orr/> (accessed 06.04.2015).

¹⁶ Orr, Robert M. Jr. (1990), *The Emergence of Japan's Foreign Aid Power*, Columbia University Press.

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 *Recycling Japan's Surpluses for Developing Countries* from 1989 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 great share of its 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 provide 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 defence of Japan's model of development assistance against conventional criticism by the OECD's DAC. This effect may be explained by certain circumstances: 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, certain data for Japan, which does not fall under international reporting regulations, can only be found in JICA or MOFA reports.

Other sources, which 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 reporting intentions 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) review of 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 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 with what is described as a 'concentration of western aid to the social sectors'.¹⁷ In fact, policy recommendations for 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 set by the Committee (e.g. the goal of an ODA-to-GNI ratio of 0.7%), whereas Japanese academics may also be concerned about volume commitments, but express 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 in early 2015, renowned scholars like GRIPS professor Izumi Ohno demanded diversion from the principle of request-based aid towards more active, international leadership.¹⁸ 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.¹⁹

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

¹⁷ 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.

¹⁸ 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-/IzumiOhno_E/lectures/2014_Lecture_texts/03_KOICA_Ohno_1125.pdf (accessed 05.04.2015).

¹⁹ 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/ (accessed 19.03.2015).

Methodology

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 texts, as well as longitudinal quantitative data were central in the analysis, data triangulation was the key concept.²⁰ At first, literature on Japan's ODA in the early 1990s, before the adoption of the first charter, was analysed to synthesize a model of Japan's aid implementation and the role of the private sector within it. Next, the political and institutional reforms were examined with respect to their relevance for aid implementation. With this background knowledge, the collection of qualitative primary data began and semi-structured interviews with key informants were conducted during a six-week fieldwork stay in Tokyo from January to February 2015. These informants, all interviewed individually 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 programme, and two JICA employees, of which one was stationed in the Tokyo HQ and the other 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, South-East 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. Next, the questions progressed to their understating of the ODA structure and actors involved, and lastly, their perception of developments or changes in Japanese ODA. Thereafter, 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 obtained from official documents such as MOFA white papers and evaluation reports, independent academic literature, and OECD reports. The qualitative data was then complemented with quantitative longitudinal data indicating the degrees of involvement of Japanese civil society and contractors in implementation over time.

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,

²⁰ University of Strathclyde (2014), *Triangulation: Introduction*, www.strath.ac.uk/aer/materials/2designstrategiesineducationalresearch/unit5/triangulation/ (accessed 20.05.2014).

personnel and technological resources exist regardless of whether or how they are studied.²¹

However, any observer must recognize their origin in a society, where an established knowledge of aid programmes 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.²²

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 the questions, the proposed length of the interview and inquired about suitable times and places for an interview. Unless by the 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. The 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 interpretations in reporting have been the cause for criticism by OECD reviews. Further, cases of minor data inconsistencies in MOFA statistics have been found by the author, which will be addressed in the fourth chapter.

²¹ Furuoka, Fumitaka (2009), *Main characteristics of Japanese Official Development Assistance (ODA) flows*, MPRA Paper No. 1359, Munich Personal RePEc Archive, p.1.

²² In accordance with Bryman's definition of a critical scientist as someone who accepts that the categories he/she chooses to understand as reality are most likely to be provisional and therefore also accepts that there is a difference between his/her approach to studying a topic and the actual nature of that topic. Bryman, Allen (2008), *Social Research Methods*, Oxford University Press, p. 14.

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 harbour 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.

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.²³ The triangular symbolism reflects a vested interests system whereby the LDP, the bureaucratic apparatus and Japan's notorious *keiretsu* business conglomerates exchange 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'.²⁴ 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 government's 1992 ODA Charter intending to structure ODA according to strategic guidelines and aid principles.²⁵

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 of how the role of the private sector in aid implementation has been affected by the reforms has to explore changes on two levels. On the first level, the question is how the role of the private sector has changed within the aid triangle. At the outset, Japanese firms have influenced aid projects through research and consulting in recipient countries (facilitated by the request-based aid principle), and have been favoured due to the tying status of ODA funds. On the second level, the question is how the agency of aid implementation within the private sector has changed as 'private sector' used to be associated with construction firms, consultants and large Japanese trading houses, *sogo shosha*, rather than civil society.

The indicators to measure the said changes have been inferred from the specific structural changes addressed in the ODA Charter and in the OECD review, e.g. the share of infrastructure-bound funding and the status of aid tying (which indicates the share of Japanese construction companies in overall loan contracts).

²³ Dower, John (2003), "Democracy in Japan" in "Durable Democracy: Building the Japanese State", *Asia Program Special Report No. 109* p. 3.

²⁴ Arase, David (2005), *Japan's Foreign Aid*, Routledge, p. 11.

²⁵ Söderberg, Marie (1996), *The Business of Japanese Foreign Aid*, Routledge, p. 45.

Conceptual Framework

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 is between commercial loans and concessional foreign aid loans, 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.²⁶ 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.²⁷ 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 one side arguing against concessional loans to be counted as ODA, and the EU, France, Germany and Japan on the other 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). Alongside the creation of these new thresholds, the discount rates have been altered accordingly.²⁸ These and other new conditions will fully 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

²⁶ JICA (2015), *Japan's ODA and JICA*, www.jica.go.jp/english/about/oda/ (accessed 15.04.2015).

²⁷ 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).

²⁸ 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 (accessed 17.04.2015).

Development Program (UNDP), ADB, or on bilateral basis.²⁹ This thesis subsequently refers to Japan's bilateral ODA, which comprises 70–75% of its total ODA disbursement.³⁰

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 on how the country derives its strong emphasis on infrastructure projects and other programmes enabling export-led growth from its own experience of catching up after WW2. Since infrastructure was the area where Japan had lagged behind industrialized countries the most, the priority was set on electrical generating capacity, telephone coverage, paved roads, railways and other infrastructural components.³¹ 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 1967.³² Other economic-political incidents that came into effect at the same time were Japan's liability for war reparations to South-East 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 devised both by its post-war reconstruction efforts as a loan recipient and its war reparation payments as agreed in the Treaty of Peace with Japan in 1951, academics refer to the first era of Japanese ODA as the war reparation era or era of Japan's own economic development.³³

The timeline of Japanese ODA has frequently been divided into four eras classified by the prime economic driver of its ODA programme. The war reparation era is followed by the era of new responsibilities, particularly poverty reduction, tied to joining the DAC and OECD in the 1960s. During this time, implementation agencies for loans, grants and technical cooperation (TC) were created and the JOCV programme was launched.³⁴

²⁹ The division between multilateral and bilateral ODA here is meant as a statistical division and not a political one; new forms of aid by DAC members such as Triangular Cooperation are statistically reported under bilateral aid by Japan and thus included in the following.

³⁰ OECD (2014), OECD Development Co-operation Peer Reviews: Japan 2014, p. 9.

³¹ The prestige bullet train *Shinkansen* and parts of the highway system were financed by World Bank loans.

³² Feasel, Edward M. (2014), *Japan's Aid*, p. 13.

³³ 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.

³⁴ 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.

The third era throughout the 1970s and 1980s is marked by the promotion of democracy and the market economy. Critical observers described this as an era of systematic, mercantilist expansion intended to secure access to natural resources in the wake of the two global oil crises of 1973 and 1979. The strong focus on Asia and the notable congruence of aid recipients and trade partners, or countries where Japan has a significant trade interest, had added substance to this criticism.³⁵

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;³⁶ at the same time American ODA budgets were cut amid the tensions of the Cold War; and Japan officially committed to recycling its large trade surplus through ODA.³⁷

While the landmark works about Japan as a major donor, such as Orr's 1990 *Emergence of Japan's Foreign Aid Power* or Rix's 1993 *Japan's Foreign Aid Challenge*, were written at a time when Japan was the world's leading aid donor in terms of budget size, the structurally and ideologically most impactful developments characterizing its current ODA framework evolved in the last two decades.³⁸ The first ODA Charter of 1992, based 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.³⁹

Locating Japanese ODA in a Global Context

Theories about what informs Japanese ODA range from realist viewpoints that see aid as a tool to implement capitalist production systems and groom trade partners, to liberalist viewpoints 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 and the prominent role of the private sector in it, a study beyond the broad generalizations implicit to liberalist, realist or other great IR theories is necessary.⁴⁰

³⁵ Orr, Robert M. Jr. (1990), *The Emergence of Japan's Foreign Aid Power*, Columbia University Press. p. 60.

³⁶ Ensign, Margee (1992), *Doing Good or Doing Well?*, Columbia University Press, New York, p. 6.

³⁷ Orr, Robert M. Jr. (1990), *The Emergence of Japan's Foreign Aid Power*, Columbia University Press. p. 52.

³⁸ Ohno, Izumi (2014), Japan's ODA Policy and Reforms since the 1990s, p. 65.

³⁹ MOFA (1997), *Japan's ODA Charter*, <http://www.mofa.go.jp/policy/oda/summary/1997/09.html> (14.04.2015).

⁴⁰ 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.

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, of which it had been a founding member along with the US, Canada, Australia, the UK, France, Germany, Belgium, the Netherlands, Italy, Portugal and the Commission of the European Economic Community in 1960.⁴¹ The DAC started as a forum for consultation 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.⁴² 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 being too intrusive, inflexible and Eurocentric.⁴³ 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.⁴⁴

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 DAC's ODA definition and reporting standards.⁴⁵ 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* –

⁴¹ OECD (2006), DAC in Dates – The History of OECD's Development Assistance Committee, OECD Publishing, p. 7.

⁴² OECD (2006), DAC in Dates – The History of OECD's Development Assistance Committee, p. 42.

⁴³ Di Ciommo, Mariella (2014), Development cooperation for the future – The increasing role of emerging providers, Development Initiatives, p. 5

⁴⁴ Andersen, Uwe (2005), Deutschlands Entwicklungspolitik im internationalen Vergleich, Bundeszentrale für politische Bildung, www.bpb.de/izpb/9082/deutschlands-entwicklungspolitik-im-internationalen-vergleich?p=all (accessed 10.03.2015).

⁴⁵ 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 (accessed 15.03.2015).

economic cooperation – had been the catch-all phrase for Japan’s economic relations with Asian countries, including aid disbursements, and the ‘aid’ label had been avoided.⁴⁶ While this distinction between DAC and NDD and the respective multilateral institutions funded by them naturally plays 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.⁴⁷ Furthermore, Japan’s geographical preference for Asia and lack of ideological norms guiding its efforts has 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.⁴⁸

Since this thesis, however, is concerned with the 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 ODA Charter, while remaining firm on other key differences. One principle held up as an example revolves around its aid trifecta of technical cooperation, grants and concessional loans. Although the conditions attached to Japan’s loans are more concessional than those of French or German loans, Japan still remains in focus due to the larger share of loans in their total ODA portfolio (43% as of 2013).⁴⁹ 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, as opposed to grants, would allow the recipient country to decide the terms of aid projects and would include them more in the process.⁵⁰ 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.⁵¹

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 –

⁴⁶ Orr, Robert M. Jr. (1990), *The Emergence of Japan’s Foreign Aid Power*, Columbia University Press. p. 53.

⁴⁷ Arase, David (2005), *Japan’s Foreign Aid*, Routledge, p. 7.

⁴⁸ Arase, David (2005), *Japan’s Foreign Aid*, Routledge, p. 14.

⁴⁹ Benn, Julia (2013), DCD/DAC – Loan Concessionalities in DAC Statistics 2013, OECD.

⁵⁰ Arase, David (2005), *Japan’s Foreign Aid*, Routledge, p. 105.

⁵¹ OECD (2014), OECD Development Co-operation Peer Reviews: Korea 2012, OECD Publishing. p. 53.

Japan has been backed in its predating claim that its model represents an ‘Asian-Style’ ODA.⁵²

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 cooperation and competition with China, which runs similar projects in common recipient countries, particularly within agricultural and infrastructural development in Africa.⁵³

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

Aid Modalities

Japanese bilateral aid is divided into concessional yen loans, technical cooperation and grant aid. A characteristic of both the LDC-focused, diversely used grant aid and the dominant 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.⁵⁴ However, instead of inferring from this 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.⁵⁵ Officially, Japan had begun untying 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’.⁵⁶ In contrast to these statements, however, the DAC recently criticized a reversal of Japan’s policy of untying aid. According to

⁵² Arase, David (2005), *Japan’s Foreign Aid*, Routledge, p. 275.

⁵³ 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.

⁵⁴ 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 (access 22.04.2015).

⁵⁵ OECD, *Untied Aid*, <http://www.oecd.org/dac/untied-aid/> (accessed 20.01.2014).

⁵⁶ Iimura, Yutaka (2000), *Japan’s position on untied aid*, MOFA, http://www.mofa.go.jp/j_info/japan/opinion/iimura.html (accessed 21.01.2015).

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 facto 71% untied status in 2012, below the 79% DAC average.⁵⁷

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 was agreed upon among member states, Japan's grant aid had been tied, allowing Japanese firms to win contracts without competition.⁵⁸ Even though grant aid has since been reported as untied, 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.

Technical Cooperation

ODA expressed as technical cooperation includes the transfer of knowledge through exchange, training as well as the transfer of required equipment, all of which are administered by JICA. Of the three instruments, technical cooperation most evenly covers 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 with 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 decreased from 43% in 2003 to 31% in 2008 and slightly increased again to 34% 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.⁵⁹ 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 an indication of an artificial separation between the two modalities that allows for more aid to be

⁵⁷ OECD (2014), OECD Development Co-operation Peer Reviews: Japan 2014, p. 18.

⁵⁸ Hirata, Keiko (1998). "New Challenges to Japan's Aid: An Analysis of Aid Policy-Making", *Pacific Affairs*, vol. 71, no. 3, p. 328.

⁵⁹ MOFA (2013), Japan's Official Development Assistance White Paper 2013, p. 168.

tied.⁶⁰ The peer reviews, however, also mentioned that dualities might stem from the separate jurisdiction over technical cooperation and grants between JICA and MOFA.

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 and requests by recipient countries, the government officially adopted a strategy of untying its loan aid in the 1970s,⁶¹ which reached a 91% rate of untied loans in 1992, 98% in 1994 and 100% in 1996.⁶² 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.⁶³

With a focus on Japan's corporate sector, aid loans are controversial for two reasons: First, 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.⁶⁴ Interest groups such as the Japan Transport Cooperation Association (JTCA), one of the largest ODA-related industrial lobby groups, openly lay out these structures and their advantageous position in them.⁶⁵

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.⁶⁶ The

⁶⁰ OECD (2004), *OECD Development Co-operation Peer Reviews: Japan 2003*, OECD Publishing, P. 13.

⁶¹ First untying commodity aid in 1972 and the start of untying of loan aid in 1978.

⁶² 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).

⁶³ Overall bilateral aid currently is 94.8% untied according to the MOFA 2013 White Paper.

⁶⁴ The stages in ODA loan provision can be roughly divided into project preparation, appraisal, signing of agreement, tender and procurement, evaluation and follow-up.

⁶⁵ JTCA (2008), *Japan's International Cooperation Scheme in Transport Sector*, <http://www.jtca.info/engl/engl/scheme> (accessed 10.02.2015).

⁶⁶ MOFA (2013), *Japan's Official Development Assistance White Paper 2013*, p. 19.

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.⁶⁷ 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 favourable 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.⁶⁸

This development is closely linked to the strong presence of overseas subsidiaries of Japanese consulting and trading giants such 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 in order to win contracts. Even contracts under STEP loans were affected 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, but also within the Japanese administration as the same loan project can appear as 'tied' and 'untied' in different JICA data outlets.⁶⁹

The Rise of Public-Private Partnership (PPP)

A practical example of Japan's open promotion of ODA as a tool that is also supposed to promote developing countries' business with Japan is the ten Japan Centers for Human Resources Development launched in 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 are 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'.⁷⁰

A similar institution that commenced in 2013 is the Myanmar-Japan Center for Human Resources Development, which is a joint project by JICA and its Burmese counterparts. Like the other ten Japan Centers, the Yangon-based

⁶⁷ 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.

⁶⁸ From JICA's ODA Loan Project DATA at www2.jica.go.jp/en/yen_loan/index.php (accessed 28.04.2015).

⁶⁹ 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/referenc.html), while the same project is listed as 'General untied' in the ODA Loan Project DATA base.

⁷⁰ JICA (2010), *Japan Center*, p.1.

Center intends to cooperate with businesses and has been announced as part of a PPP development scheme.⁷¹

As the name suggests, Public-Private Partnership includes 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 less clear after a 1996 legal change 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 tolls from a motorway built in a developing country.⁷² PPP as a concept emerged in the 1990s and stretches across a variety of models (like BOT/BOO), which are chosen depending on individual circumstances (existing infrastructure, 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.

The Institutions

Decision-Making Institutions

Describing the administrative structure 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.'⁷³

Although a multitude of agencies at the implementation level have been successfully integrated into one single aid agency, the new JICA launched in 2008, the decision-making process at ministerial level is still multi-centric, albeit coordinated by MOFA. This makes it difficult to trace projects or country strategies back to the political sponsor.⁷⁴

While ODA is commonly understood as a streamlined process in which a bilateral aid project eventuates from negotiations between two governments,⁷⁵ it is

⁷¹ MOFA (2013), Japan's Official Development Assistance White Paper 2013, p. 17.

⁷² Söderberg, Marie (1996), *The Business of Japanese Foreign Aid*, Routledge, p. 58.

⁷³ Orr, Robert M. Jr. (1990), *The Emergence of Japan's Foreign Aid Power*, Columbia University Press, p. 20.

⁷⁴ Sato, Jin (2015), *The Benefits of Unification Failure*, p. 1.

⁷⁵ With the exception of reporting on ODA-related corruption scandals in recipient countries, as most recently in the case of a Japanese contractor bribing Vietnamese officials to secure the Hanoi Railway project funded through JICA. Beaudry, Micheline/ Cook, Chris M. (1999),

more accurate to divide the process into three stages: The policy-making stage at ministerial level; the administrative stage, on which agencies design and manage projects; and the project implementation stage, in which contractors are at the centre. 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's sake, the hospital has been described as 'built with Japanese aid'.⁷⁶ This statement as such is correct, yet there is more precision in describing it as follows: In order to conduct 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.⁷⁷

Decision making at ministerial level

The most important, or at least most intuitive, decision in the process of providing ODA is the decision about 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, so that it can be approved before the beginning of the fiscal year on 1 April. For 2013/14, an ODA budget of ¥ 557.3bn had been approved.⁷⁸

As Japanese ODA is very industry-intense, industrial lobby organizations have been vocal in making policy recommendations and should thus be considered as a significant influential factor in the decision-making process.

Ministry of Foreign Affairs (MOFA)

Until the reform-induced shift, Japanese ODA had been within the authority of four main ministries, MOFA, the Ministry of Finance (MOF), the Ministry of Economy, Trade and Industry (METI),⁷⁹ and the Economic Planning Agency (EPA). For this reason, the system had been referred to as a 'four-ministries consultation system', in which MOFA always received the largest budget, although its share has risen as a consequence of reform efforts to centralize aid policy coordination.

Japan's System of Official Development Assistance, International Development Research Centre (Canada), p. 90.

⁷⁶ Kartasasmita, Ginandjar (2008), *Indonesia and Japan – 50 Years of Partnership*, Embassy of Japan in Indonesia www.id.emb-japan.go.jp/oda/en/topics_ginanjara.htm (accessed 20.04.2015).

⁷⁷ 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 (accessed 20.04.2015) p.41.

⁷⁸ OECD (2014), *2014 Global Outlook on Aid*, www.oecd.org/dac/aid-architecture/GlobalOutlookAid-web.pdf (accessed 10.04.2015) p. 79.

⁷⁹ Formerly named Ministry of International Trade and Industry (MITI).

Consolidating ODA administration through the 2008 restructuring of JICA, which has since come under MOFA jurisdiction, strengthened the ministry. In 1998, it was comparably small with less than 5,000 employees and had not represented specific domestic interest groups as METI and other industry-related ministries had. Therefore, it did not have the same backing for its policies within the private sector or political circles.⁸⁰ Partly because of its relatively weak position, MOFA's aid projects mostly followed in response to external demands. As described by political scientist Keiko Hirata, MOFA had used international pressure on Japanese ODA to elevate its own role within the government.⁸¹

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 authority over multilateral aid disbursement. MOF had been said to favour 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.⁸²

Ministry of Economy, Trade and Industry (METI)⁸³

Between the three ministries, METI has always received the smallest budget. Representing industries that were increasingly losing international biddings for loans due to their comparably high costs during times of yen appreciation, METI opposed an increase in soft aid and advocated a return to tied aid, which went against the interests of MOFA.⁸⁴ METI had been particularly influential in the decision making around ODA during its beginnings: It had developed the industrial policies for infrastructural reconstruction and trade promotion for economic growth, which were transferred into Japan's ODA system.⁸⁵ 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

⁸⁰ Hirata, Keiko (1998). "New Challenges to Japan's Aid: An Analysis of Aid Policy-Making", p. 313.

⁸¹ Hirata, Keiko (1998). "New Challenges to Japan's Aid: An Analysis of Aid Policy-Making", p. 314.

⁸² OECD (2014), OECD Development Co-operation Peer Reviews: Japan 2014, p. 33.

⁸³ Formerly named Ministry of International Trade and Industry (MITI).

⁸⁴ Hirata, Keiko (1998). "New Challenges to Japan's Aid: An Analysis of Aid Policy-Making", p. 320.

⁸⁵ Feasel, Edward M. (2014), *Japan's Aid*, p. 120.

now mainly responsible for Public-Private Partnership for development and only manages around 4% of the total ODA budget.⁸⁶

Economic Planning Agency (EPA)

The EPA was originally responsible for the former ODA loan agency, the Overseas Economic Cooperation Fund (OECF), in order to avoid a conflict of interest between the three ministries, MOFA, METI and MOF. As the EPA was domestically weak and the weakest institution in the four-ministries system, the OECF was initially strongly influenced by the bureaucratic power play between the three ministries rather than its actual legislation. Officials in the Japanese ministries concerned with aid generally did not have in-depth experience in the field as rotation between different departments was part of their political curriculum.⁸⁷ When the EPA was merged into the Cabinet Office in 2001 as part of the central government reform, its oversight of the OECF and ODA loans transferred to JICA and thus became MOFA's responsibilities.⁸⁸

Ministerial Councils

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

Implementing Institutions

The integration of agencies at the implementation level is regarded as a success in reforming Japan's ODA.⁸⁹ 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 at every stage.

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

An illustrative bilateral STEP loan aid project is the currently ongoing 'National Geo-Spatial Data Infrastructure (NSDI) Development Project' in Indonesia. It is

⁸⁶ 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.

⁸⁷ Hirata, Keiko (1998). "New Challenges to Japan's Aid: An Analysis of Aid Policy-Making", p. 314.

⁸⁸ Feasel, Edward M. (2014), *Japan's Aid*, p. 118.

⁸⁹ Sato, Jin (2015), *The Benefits of Unification Failure*, p. 2.

representative inasmuch as it is a large-scale (total loan budget: ¥6.37bn) infrastructure project in a South-East 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 to set up a NSDI networking system improving administration by local governments. Project oversight and disbursement of loan budget are JICA's responsibilities, while the executing agency is Badan Informasi 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 Japanese business involvement, the project's largest subject of expense, occupying 51.8% of total costs, is that of data production and acquisition, which BIG awarded to a joint venture of two Japanese contractors. The other core part of the project, claiming 30% of total costs, is the development of NSDI networking systems, which was awarded to another Japanese contractor. Consulting, which started in 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 is conditioned by the STEP loan policy, which requires goods and services to be procured from Japan with the official goal to enhance the visibility of Japanese aid.

State Agencies

Originally, OECF and JICA together divided aid implementation between them. While the OECF was placed under 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 searching for projects, conducting feasibility studies and carrying out evaluations for Japanese ministries and recipient governments. Since OECF and JICA have not had their own development specialists and generally fewer 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 \$3.5bn budget while JICA's 1,052 staffers handled a \$4.5bn grant aid budget –⁹⁰ has likely contributed to the tendency of Japanese ODA to prefer large-scale

⁹⁰ 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).

infrastructure projects. Although JICA is now handling grants and loan aid, its staff remains relatively small at 1,842 full-time employees as of 2013.⁹¹

JICA

In the course of the first revision of the ODA Charter in 2003, JICA was decoupled from MOFA through its transition into an independent institution and its 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 therefore welcomed by outside observers.⁹² 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-partnerships for poverty alleviation and peace building.⁹³ 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.⁹⁴ Although Tanaka had not directly criticized the donation of the patrol boats, his statement reflects the partly diverting interests between JICA and MOFA. While the former is closer to the field and has increasingly emphasized humanitarian ODA principles after becoming independent, the latter foremostly pursues national and diplomatic interests.

After the government decided to restructure the institutional framework in 2006, JICA also assumed grant aid jurisdiction from MOFA and gradually became 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 2012.⁹⁵

Although the government of Japan and MOFA have made significant progress in installing JICA as the prime agency 'in charge of administering all ODA such as technical cooperation, ODA loans and grant aid in an integral manner [...]'⁹⁶ bilateral aid implementation is not exclusively conducted by JICA as shown in Table 1: Ten ministries, two agencies and the Cabinet Office are

⁹¹ Söderberg, Marie (1996), *The Business of Japanese Foreign Aid*, p.54.

⁹² Yomiuri Shimbun (2003), *Ogata to be appointed JICA chief*, Yomiuri Shimbun (2003.08.27).

⁹³ Arase, David (2005), *Japan's Foreign Aid*, Routledge, p. 274.

⁹⁴ 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 (accessed 23.04.2015).

⁹⁵ OECD (2014), *OECD Development Co-operation Peer Reviews: Japan 2014*, p. 51.

⁹⁶ JICA (2014), *JICA Profile*, p.5, www.jica.go.jp/english/publications/brochures/c8h0vm000000k9k0-att/jicapofile_en.pdf (accessed 01.02.2015).

involved in ODA policy planning and coordination with some grant projects directly implemented 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
Total	561,177	557,284	-3,894	-0.7

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.⁹⁷

By the 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 the procurement service, the other self-stated motivation of its foundation was the achievement of 'visible Japanese aid'.⁹⁸

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.⁹⁹

⁹⁷ 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 moving in that direction. Söderberg, Marie (1996), *The Business of Japanese Foreign Aid*, p. 72.

⁹⁸ JICS (2013), *Toward a World Without Mines*, JICS Publications, p. 2.

⁹⁹ ADB (2013), *Outsourcing Procurement in the Public Sector*, ADB publications, p. 7.

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

Consulting

A majority of the 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.¹⁰⁰ 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 dependent 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 members' overseas business is conducted in Asia, where Japanese firms are more established.¹⁰¹

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 trading companies have been allowed to also prepare bids for their own formulated projects, critics have raised the question of how fair bidding can be ensured while bidding trading companies enjoy such advantages.¹⁰²

Translating *sogo shosha* as 'general trading company', it is further important to place emphasis on 'general' as these trading houses usually have a very diversified portfolio and are often said to be trading 'everything from ramen noodles to missiles'.¹⁰³ Japan's seven largest *sogo shosha* by trade volume, Mitsubishi Corporation, Mitsui & Co., Sumitomo Corporation, Itochu, Marubeni, Toyota

¹⁰⁰ Confirmed during an interview with a Japanese engineering consultant (Practitioner 1), whose employer is not a member of EFCA.

¹⁰¹ ECFA (2004), *Overseas Activities of Members*, www.ecfa.or.jp/english/wh-osa.html (accessed 27.01.2015).

¹⁰² Beaudry, Micheline/ Cook, Chris M. (1999), *Japan's System of Official Development Assistance*, p. 104.

¹⁰³ 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 (accessed 16.03.2015).

Tsusho and Sojitz,¹⁰⁴ are all active in resource extraction and have been involved in many large-scale projects funded by JICA.

As the trend of untying aid caused Japan's largest industrial lobby, the Federation of Economic Organizations, *Keidanren*, to predict a sharp slump in profitability of ODA-related business, observers warned that only large traders with sufficient resources to run well-endowed research departments would survive. Against this prediction, however, Japanese contractors have adapted by increasing and diversifying their overseas investments 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, and Mitsubishi's BHP Billiton Mitsubishi Alliance (BMA) mines coal in Australia.¹⁰⁵

Construction Companies

Construction companies have remained central in ODA implementation as infrastructure consistently 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, its 75 members include some of the largest firms.¹⁰⁶ In OCAJI's relationship with JICA, information flows both ways: On the one hand, OCAJI carries out research in recipient countries and shares its findings with JICA for the consideration of new projects. On the other hand, OCAJI 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 total construction turnover has been lower for the Japanese 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.¹⁰⁷ As Asia has always been the prime destination of Japanese ODA loans, overseas operating construction firms 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.¹⁰⁸

¹⁰⁴ Asahi Shimbun (2014), *Ôte shôsha, 7 shachû 6-sha ga zôshû zôeki 3 tsuki-ki kessan*, www.asahi.com/articles/ASG594DY6G59ULFA013.html (accessed 16.04.2015).

¹⁰⁵ 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#axzz3XUNIFtE (accessed 21.04.2015).

¹⁰⁶ OCAJI (2015), *What is OCAJI?*, www.ocaji.or.jp/en/about/index.php (accessed 08.04.2015).

¹⁰⁷ Shimizu, Hiroshi (2008), *Japanese Firms in Contemporary Singapore*, NUS Press, p. 159.

¹⁰⁸ OCAJI (2015), *Overseas Contracts*, www.ocaji.or.jp/en/overseas_contract/ (accessed 08.04.2015).

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 its ODA policy recommendation in 1992,¹⁰⁹ Keidanren proposed a raise of ODA to 0.7% of GNI,¹¹⁰ 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: First, the rapid untying of loan aid, and second, the appreciation of the yen until the mid 1990s,¹¹¹ which had made Japanese companies more expensive and thus less favourable in international competitive bidding. These claims were supported by statistics showing that the share of Japanese ODA contracts won by Japanese firms had dropped from 67% in 1986 to 29% in 1993.

In 1997, Keidanren suggested to 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.

Besides the large industrial associations, there is a range of research institutes, consultants and associations in the smaller sectors involved in Japan's ODA, e.g. energy, medical care, telecommunication, that cooperate with JICA.¹¹²

The Japan Transport Cooperation Association (JTCA) and Japan Railway Technical Service (JARTS) are involved in loan projects, and the Overseas Human Resources and Industry Development Association (HIDA), which provides training in management and engineering within JICA's technical cooperation programmes, is associated with the planning and implementation of technical cooperation projects. As each of these associations forwards JICA's recommendations and state regulations to their members, they partly serve as an indirect government extension into the private sector.¹¹³

Influence between the state and industrial associations representing the corporate private sector, however, is mutual.

According to the abstract formal flow, the recipient government first makes an ODA request for a project, which MOFA then passes on to JICA for further administration, after which contractors become involved in carrying out the project. In reality, however, private sector institutions are often involved in the planning stage prior to the official request, as is displayed in Figure 1. Firms

¹⁰⁹ Söderberg, Marie (1996), *The Business of Japanese Foreign Aid*, p. 76.

¹¹⁰ Which was the goal Japan has agreed as a DAC member.

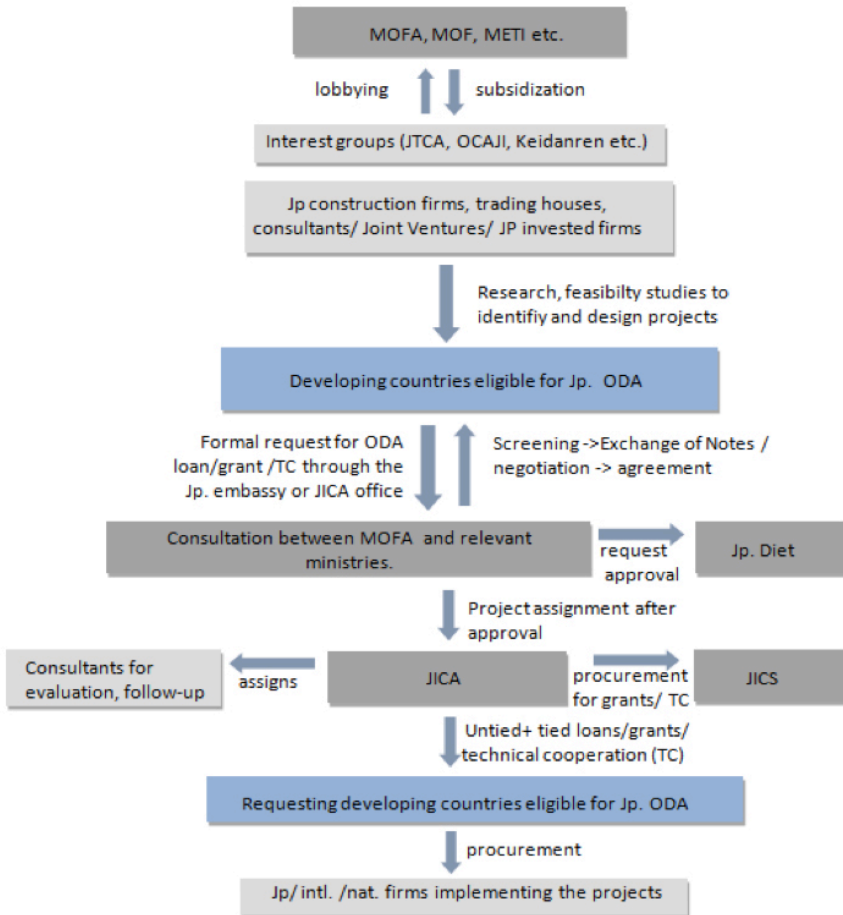
¹¹¹ As a consequence of the Plaza Accord to depreciate the US dollar against the yen and Deutschemark in 1985.

¹¹² 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 (accessed 08.04.2015).

¹¹³ Sasada, Hironori (2013), *The Evolution of the Japanese Developmental State*, Routledge, p. 4.

independently carry out studies for recipient country governments and design projects, which they would then seek to implement once the project has been approved for procurement.

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



Source: JICA, JICS, JTCA, MOFA

Civil Society

Although the aid budget share for public non-profit projects is relatively small, civil society's participation in providing ODA has come to fulfil 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.¹¹⁴ The government's two primary channels to facilitate civilian participation in aid provision are through cooperation with NGOs and direct participation schemes such as the JOCV and SV volunteer programmes. 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 around 300 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.¹¹⁵ As most CSOs promote community-based aid projects that address human security issues,¹¹⁶ they have been vocal in their criticism of large-scale infrastructure loans, and recommended aid reforms.¹¹⁷

JOVC and SV Volunteers

While NGOs pursue their own agendas, the JOCV and SV programmes under the auspices of JICA pursue Japan's official ODA objectives. The programmes 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 the Japanese society. The JOCV programme, inceptioned in 1965, dispatches volunteers aged 20 to 39 years to developing countries for two years,¹¹⁸ while the SV programme, launched in 1990, dispatches volunteers aged 40 to 69 years. The programme has often been compared to the American Peace Corps, the world's largest volunteer programme. Together with the support pledged for CSOs, the charter openly promotes the volunteer programme as a measure to harness public support for Japan's ODA policies and budgeting.¹¹⁹

Applicants go through a two-stage selection process and are matched according to the skills requested by the recipient countries. In 2014, there were 1,295 requests for JOCV volunteers as opposed to 1,602 applications. Yet, only 680 were found suitable and dispatched after two months of preparatory training.

¹¹⁴ 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.

¹¹⁵ 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 (accessed 12.05.2015), p. 247.

¹¹⁶ Hirata, Keiko (1998). "New Challenges to Japan's Aid: An Analysis of Aid Policy-Making", p. 329.

¹¹⁷ JANIC (2014), *Japanese NGOs' 10 Recommendations For Revision of Japan's ODA Charter*, (accessed 09.04.2015).

¹¹⁸ This is extendable by one year if requested by the recipient country.

¹¹⁹ MOFA (1995), *Japan's ODA Annual Report (Summary) 1995*.

Combined, around 48,000 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 programme has led to the accumulation of 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.¹²⁰

This dual focus is reflected in the media, which had initially concentrated on stories about 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 of returned volunteers as difficulties in re-entering employment had become the biggest obstacle to the programme. To solve the problem, JICA established a department to support volunteers' re-entrance into private firms, predominantly trading houses and consultants with ODA related-business, and local authorities. As of 2010, 31 local authorities had introduced quotas for hiring JOCV alumni.¹²¹ Although worth an investigation, the dynamics between former JOCV volunteers and ODA related businesses are difficult to measure as relevant figures are not publicly accessible.

Within the wider ODA programme, volunteers abroad also contribute to the goal of 'aid with a face' through their presence in public institutions like schools, health centres or public administration.¹²² Although the number of JOCV applicants has fluctuated over the past few years, increased media coverage endorsed by public figures joining the programme has drawn more public attention to Japan's ODA activities in the volunteers' destination countries. The image that JOCV volunteers convey to Japan's tax-paying public and the international community is an image with strong emphasis on humanitarian assistance for LDCs. 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%).¹²³ The JOCV volunteers' concentration in Sub-Saharan Africa supports Japan's grant-based aid strategy for the region, which is manifested

¹²⁰ 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.

¹²¹ 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 (accessed 07.03.2015).

¹²² 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).

¹²³ 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.

around the flagship conference TICAD,¹²⁴ which was launched in 1993 and reoccurs in five-year cycles. While the volunteers are mostly dispatched to Sub-Saharan Africa, the lion share of Japan's total ODA budget consists of infrastructure loans to South- East Asia.

¹²⁴ Tokyo International Conference on African Development.

Analysis

Reform Background

In the discourse on foreign aid, Japan's ODA has not been depicted in a way that presents lessons for ODA practices, but instead has been criticized for its lack of ideology.¹²⁵ In 1992, however, an ODA Charter installed which has been revised in 2003 and 2015 so as 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 to outline which institutions drove the reforms and what their motives and goals were.

Domestic Drivers of Change

MOFA first demanded more unity in Japanese ODA administration in its report 'State and the Future Problems of Overseas Economic Cooperation' of 1961,¹²⁶ when the EPA had the mandate to negotiate with foreign counterparts on behalf of the ministries while project implementation remained at the discretion of the ministries.¹²⁷

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, such as Germany's Ministry for Economic Development Cooperation (BMZ), nor a Diet-enacted law to regulate aid like the US Foreign Assistance Act, had emerged.¹²⁸

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 were divided between other ministries.¹²⁹

Due to the fragmented dispatch of experts and a growing 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 experts in 1994.¹³⁰ 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.¹³¹

¹²⁵ Arase, David (2005), *Japan's Foreign Aid*, Routledge, p. 15.

¹²⁶ Sato, Jin (2015), *The Benefits of Unification Failure*, p. 8.

¹²⁷ Sato, Jin (2015), *The Benefits of Unification Failure*, p. 15.

¹²⁸ Orr, Robert M. Jr. (1990), *The Emergence of Japan's Foreign Aid Power*, p. 21.

¹²⁹ Sato, Jin (2015), *The Benefits of Unification Failure*, p. 17.

¹³⁰ Sato, Jin (2015), *The Benefits of Unification Failure*, p. 19.

¹³¹ MOFA (1992), *Japan's Official Development Assistance Charter*, <http://www.mofa.go.jp/policy/oda/summary/1999/ref1.html> (accessed 29.01.2015).

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 streamlined administration. Also, before JICA and JBIC merged in 2008, both agencies had sought closer coordination.¹³²

International Declarations

OECD Declarations

In the 2001 OECD Recommendation on Untying Aid for LDCs (amended in 2006 and in 2008), all DAC members agreed to untie most types of aid to LDCs with the common exceptions being free-standing TC and food aid. The recommendation 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 provided a reference base for analysing or comparing Japan's ODA. As a DAC member, Japan has endorsed the fora's declarations.¹³³ Most important for the debate on Japan's status of untied aid was the Paris Declaration of 2005. The 2005 declaration added a qualitative component known as 'Indicator 8', which declares 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 maximize the 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. And in Busan, the acceleration of untying efforts, along with an improvement in the reporting of the tying status, were decided.¹³⁴

Formally, these declarations harmonized with official MOFA and JICA RI statements and Japan was further credited for its achievements in the emerging aid modalities of the triangular/south-south cooperation debated in the HLFs.¹³⁵ Reporting standards and the tying status of aid, however, remain issues of tense dispute between Japan and the OECD's Development Co-operation Directorate (DCD-DAC). The DCD-DAC heavily criticizes Japan and the US for being the only DAC members that have not untied their aid beyond the terms of the official DAC Recommendation.¹³⁶

¹³² Tsunekawa, Keiichi (2014), *Objectives and Institutions for Japan's ODA*, p. 18.

¹³³ OECD (2015), *The High Level Fora on Aid Effectiveness: A history*, www.oecd.org/dac/effectiveness/thehighlevelforaonaideffectivenessahistory.htm (accessed 26.04.2015).

¹³⁴ 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 (accessed 26.04.2015).

¹³⁵ 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 (accessed 26.04.2015).

¹³⁶ In the follow-up of the Busan HLF 2011, DCD-DAC representative William Nicol strongly condemned the positions presented by the US and Japanese delegates with forthright language. Interview available at: Marquard-Busk, Una (2013), *DAC and The Road to Busan*, Roskilde Universitetscenter's Digitale Arkiv, p. 12.

The ODA Charter and Domestic Reforms

Although academia may suggest that Japan's lack of an overarching ODA philosophy has been mainly criticized by foreign institutions like the DAC,¹³⁷ Japanese CSOs have long demanded cohesive principles and a human-focused approach. Investigating the government's ODA reform drivers, CSOs must be included as an influential factor alongside the industrial lobby groups, 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"> Introducing aid philosophy, implementation guidelines and four official principles (environmental conservatism, ruled out military support, promotion of peace, and human security) 'Broader participation of people'¹³⁸; increased visibility of aid as accountable tax money expenditure in the Japanese public society
1993	TICAD I, co-hosted with UN and held every five years subsequently	<ul style="list-style-type: none"> New, proactive pattern of aid with more allocation according to charter principles and recipients' commitment to good governance
1999	Founding of Japan International Cooperation System (JICS)	<ul style="list-style-type: none"> Launch of independent procurement agency for grant aid and technical cooperation to ensure fair, (corruption-free) and increase 'visibility of Japanese aid'.¹³⁹
2003	Revision of ODA Charter following unprecedented public hearing and	<ul style="list-style-type: none"> Overseas Economic Cooperation Fund (OECF) and the EXIM Bank of Japan are merged into the Japan Bank for

¹³⁷ Tsunekawa, Keiichi (2014), Objectives and Institutions for Japan's ODA, p. 2.

¹³⁸ 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).

¹³⁹ JICS (2013), *Toward a World Without Mines*, JICS Publications, p. 3.

	public dialogue through online and print media	<p>International Cooperation (JBIC)</p> <ul style="list-style-type: none"> • Re-launch of JICA as independent administrative institution, expansion of overseas offices and field missions. • More sovereignty for MOFA coordinating overall ODA policies • Country-based task force and new country assistance programmes • Increase of public participation, more support for NGOs
2008	Re-launch of JICA	<ul style="list-style-type: none"> • JBIC (incl. its yen loan and grant aid sections) was amalgamated with the new JICA, more duties were transferred from MOFA to the new JICA¹⁴⁰
2009	Restructuring of MOFA International Co-operation Bureau	<ul style="list-style-type: none"> • MOFA's ODA policy devising bureau restructured according to regions instead of aid modalities to improve country-based approach
2015	2 nd revision of ODA Charter	<ul style="list-style-type: none"> • Abe's 'Proactive pacifism' for a more active role in world affairs – ODA becomes more of a 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)¹⁴¹ • Stronger promotion of PPP and more collaboration with NGOs

Source: MOFA

¹⁴⁰ 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/ (accessed 20.03.2015).

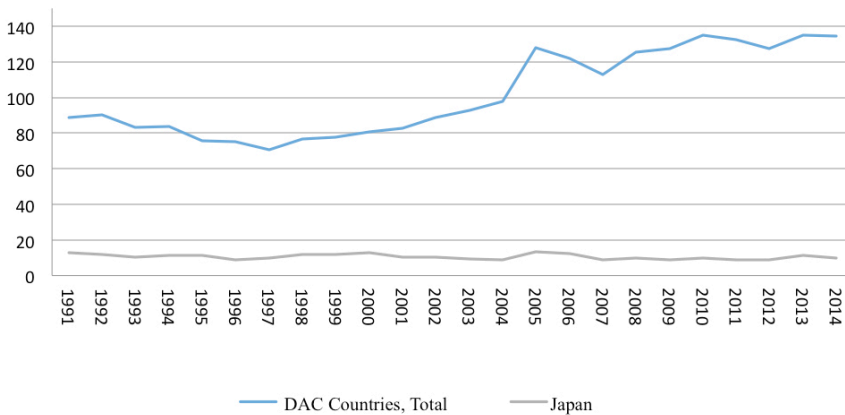
¹⁴¹ Nikkei Asian Review (2015), *Japan's new aid charter thinks outside old ODA box*, <http://asia.nikkei.com/Politics-Economy/International-Relations/Japans-new-aid-charter-thinks-outside-old-ODA-box> (accessed 20.02.2015).

Indicators

As part of the reform efforts, JICA has fulfilled its pledge to make data about ODA disbursement more transparent and accessible, yet inconsistency in the availability and arrangement of data remains. This 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 a rising total DAC budget, which signals that the adjustments affected the composition rather than the size of the ODA budget. However, it must be remarked that net disbursements exclude loan repayments.¹⁴² Furthermore, 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

Industrial Contractors

Many Western observers with knowledge of the DAC principles associate Japan's high share of bilateral aid with an intention to increase the visibility of aid and to pursue commercial interests, particularly by awarding infrastructure projects to Japanese construction firms.¹⁴³ While MOFA has started to attach the goal of

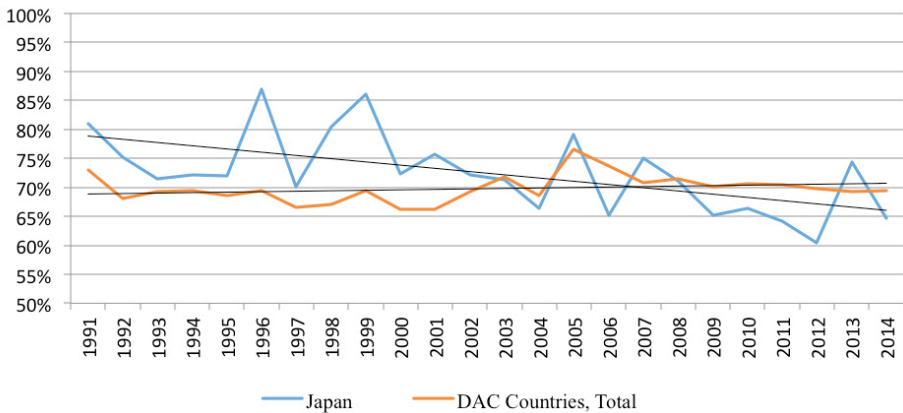
¹⁴² Gradual increases of the loan budget may not be reflected because they would be offset by the repayments.

¹⁴³ West, John (2014), *Japan's muddled development cooperation*, Asian Century Institute, www.asiancenturyinstitute.com/development/120-japan-s-muddled-development-cooperation (accessed 02.05.2015).

increased aid visibility to its official documents after the inception of the first ODA Charter, the share of bilateral aid has followed a decreasing trend over the span of two decades. Against this trend, the DAC average saw a slight increase as the trending lines in Figure 3 show.

Moreover, the claim of a direct link between bilateral aid allocation and infrastructural interests must be carefully examined; the share of Japan’s ODA funds for economic infrastructure in total ODA has increased while the share of multilateral aid also grew bigger. This divergence must be interpreted in the context of how Japan disburses aid through multilateral channels. Japan provides more than half of its multilateral aid funds to the World Bank Group,¹⁴⁴ where it holds 8% voting rights,¹⁴⁵ followed by subscription to the ADB, where Japan holds 13% voting rights. Both financing institutions divert the majority of funds to infrastructure development.

Figure 3: Share of net bilateral ODA FY1991–FY2014



Source: OECD StatExtracts

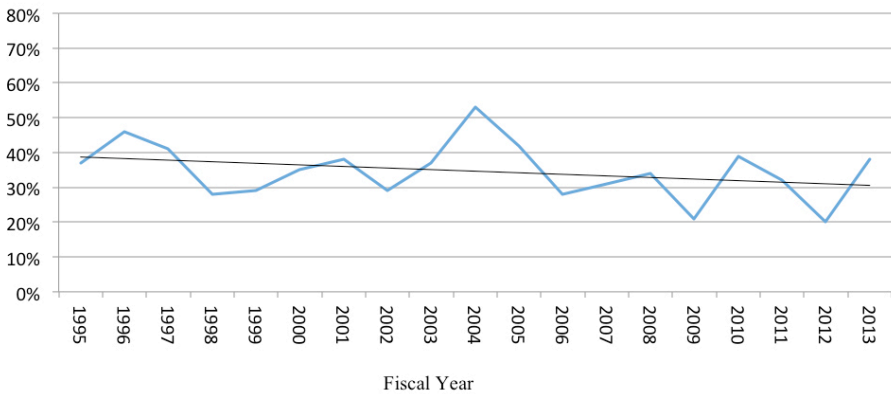
A first indicator for the involvement of Japanese contractors in the implementation of bilateral aid is the tying status, which reflects the government’s inclination to give its own domestic industries an advantage. The most explanatory indicator is the share of Japan-funded ODA contracts awarded to Japanese-owned firms, which represents Japanese industrial involvement in aid provision beyond tied aid. After reaching a peak value of 93% untied ODA in

¹⁴⁴ OECD (2014), Multilateral Aid Report 2013, p. 84, www.oecd.org/dac/aid-architecture/2013%20Multilateral%20Aid%20Report.pdf (accessed 12.05.2015).

¹⁴⁵ World Bank (2015), Board of Directors – Voting Powers, www.worldbank.org/en/about/leadership/VotingPowers (accessed 12.05.2015).

FY2007, the status decreased to 79% untied ODA in FY2013.¹⁴⁶ 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 a significant difference: according to OCAJI, representing Japanese construction industries with overseas operations, funds allocated to Japanese affiliated overseas 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.¹⁴⁷

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



Source: JICA, JBIC Annual Reports

Further ambiguity arises from the fact that the mere number of contracts without regard for the budget volumes has limited significance as an indicator for business involvement.

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

¹⁴⁶ JICA (2014), Annual Report 2014: Statistics on Program Results, p. 27. www.jica.go.jp/english/publications/reports/annual/2014/c8h0vm000090s8nn-art/2014_s02.pdf (accessed 10.04.2015).

¹⁴⁷ OCAJI (2015), *Overseas Contracts*, www.ocaji.or.jp/en/overseas_contract/ (accessed 25.04.2015).

‘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 survived through adjustments such as part-time employment schemes.

When the author asked Practitioner 2, a man working in a small-sized trading firm procuring equipment for various project types, about trends in the 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 a member of any association; we are just a small firm. But we operate in many countries.’

Civil Society

Upon further questioning about how a firm of this size managed to be involved in many countries and projects, Practitioner 2 explained that the firm usually hires external engineers on project basis. Moreover, when the author asked him how long he had been with the firm, he replied that he was in his fourth year and first came in touch with ODA when he was a JOCV volunteer in Zambia. Although he did not imply a general connection between his volunteer experience and his comparably long employment in an ODA-affiliated firm, his career path hints at the emerging ties between voluntary aid workers and commercial staff as the faces of Japan’s foreign aid provision.

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.¹⁴⁸ Further, when describing their assigned 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. Two volunteers dispatched to Laos and Tonga also mentioned their presence at high-level visits by Japanese government officials, where they were given a public platform for direct feedback. By default, all volunteers provide feedback through the five reports they have to write throughout their two-year assignment.

The incidences described by JOCV volunteers align with the JOCV programme’s image as being integrated into Japan’s overall aid strategy, as it is

¹⁴⁸ The other two volunteers responded that they were still undecided.

portrayed by the media through reported stories of volunteers engaging in the debate about aid effectiveness.¹⁴⁹

Coming back to MOFA's intent to increase public participation and visibility of aid in Japan, as it was declared in the revised ODA Charter of 2003, five of the six interviewed volunteers reported that they had given lectures about their dispatch countries as part of schools' global education classes, which are organized and compensated by JICA.¹⁵⁰ The perhaps most visible initiative to enhance communication of Japan's aid activity to the public is the JICA Global Plaza, which opened in 2006 and exclusively employs former volunteers.¹⁵¹ The Global Plaza is housed in the six-storey JICA Ichigaya building, which serves as a visitor and training centre open to the public and foreign delegations. Situated on the first floor, the elaborately decorated Global Plaza is the first face of JICA that visitors see upon entrance.

In 1994, the number of annually dispatched volunteers exceeded 1,000 for the first time and 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 results from annual negotiations between eligible,¹⁵² requesting recipient governments and JICA, as was explained by interviewee JICA employee 2, it does not fully reflect how many applicants are actually interested in volunteering. Instead, the number is skewed by a discrepancy between available skillsets, mostly within education, and the demanded skills, particularly healthcare professionals. The number of annual applicants has not been consistently featured in the yearly JICA reports; however, the available data suggests a sharp decrease from a peak total of 9,841 applicants in 2003 to 5,857 in 2006, to a new low of 1,612 applicants in 2014.¹⁵³ Whether this trend signifies eventual aid fatigue, employment insecurities, or a diversion of potential volunteers to NGOs, cannot be established at this point. Further studies building on this observation, and also taking into account the consequences of the newly revised ODA Charter of 2015, would present a valuable contribution to the discourse.

¹⁴⁹ Yomiuri (2002), *Logistics hamper Ethiopian aid distribution*, Yomiuri Shimbun 2002.08.28 edition.

¹⁵⁰ Volunteers present their own prepared material/footage during lectures, and are compensated with ¥10,000, equivalent to approximately \$80.

¹⁵¹ JICA (2009), *Window to the World*, www.jica.go.jp/hiroba/english/plaza.html (accesses 20.01.2015).

¹⁵² Meaning whether the general dispatch of volunteers has previously been agreed upon by both governments.

¹⁵³ Values taken from the respective JICA annual report at www.jica.go.jp/english/publications/reports/annual/ (accessed 20.01.2015).

Conclusion and Outlook

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 for other ODA donor countries to follow.

It did, however, bring more attention to its ODA system, so that knowledge about it accumulated in a Western-led discourse on aid. The observations by Rix, Orr and Ensign in the early 1990s portrayed Japan's ODA decision-making as highly fragmented through the competing interests of the ministries and their agencies. At the same time, the administration was portrayed as low capacity and non-cohesive due to separate channels handling grants, yen loans and technical cooperation. Lastly, aid implementation was heavily reliant on and beneficial to Japan's corporate sector for two reasons: Aid was focused on large-scale infrastructure projects, and it was allocated to Asian destinations where Japanese firms established themselves through trade relations and influenced aid flows by means of 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 was 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 overlapped by demands from domestic interest groups such 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.

At the same time, recommendations not met include a shift towards a larger proportion of grant aid; more policy coherence; and an overhaul of JICA's staffing capacity as the agency remains the subject of criticism for being understaffed.

In order to comprehend this development, a basic insight into Japan's internal drivers of change and into the 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, power was shifted away from the corporate private sector, whose interests are represented through METI and the other industry-related ministries.

Japanese ODA officially remains request-based and Japanese industries can still influence aid projects through research efforts in recipient countries. However, the profitability of aid has been curbed through the untying of aid and the appreciation of the yen, meaning that Japanese firms have been increasingly exposed to international competition. Despite setbacks in the trend such 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 of 2007/08, aid budgets have become a sensitive issue in many of the DAC member states as economic strife negatively affects public support for tax money flowing abroad.

In the face of the 'lost decade' after the asset price bubble burst in the early 1990s, the Japanese strategy to recapture public support was to increase public participation through closer cooperation with civil society groups and to heighten attention for the longstanding JOCV volunteer programme, while it was gradually expanded. Integrating volunteers better into the aid implementation 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. Precisely this trend is also linked to the lowered profitability and increased competition in the corporate sector, as firms with ODA-related business are the desirable employers for former volunteers. Even though this linkage requires a 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 still plays a significant role, yet has been faced with more competition and decreasing profitability.

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 2015.¹⁵⁴ These new Sustainable Development Goals (SDG) will have a direct impact on the work of the DAC. Further, the SDGs will 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 these new funds offer new opportunities, 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’.¹⁵⁵

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 public participation now, could bridge a widening gap: the divergence between the Western, OECD-led aid rationale and the (now branded as) China-led principles of non-interference and infrastructure-based help for self-help.

¹⁵⁴ 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).

¹⁵⁵ 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 smartphone from the first question onwards. Prior to asking the prepared 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 in order 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 programme and what was your motivation to apply for it?
- Q7. When and where have you been dispatched 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 you were dispatched to 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 in ODA projects)

- Q11. Are the projects you are working with loan aid, grant aid or technical cooperation?
- Q12. Is your firm a member of a representative association?
- Q13. Do you 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 your work position travelled 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 the initiative of the author.