

# JAPANESE OFFICIAL DEVELOPMENT ASSISTANCE SYSTEM AND ITS IMPROVEMENT

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**ABSTRACT :** After participation in the Colombo Plan in 1954, Japan has provided Official Development Assistance (ODA) to 185 countries and areas, and the accumulated amount of Japan's ODA is approximately US\$ 221 billion for 50 years. Japan is the second largest ODA donor country in the world now. The country is contributing to the peace and development of the international community. However, the recipient government and the parties concerned are not always satisfied with the Japan's ODA system. Especially the grant aid system is strongly based on the domestic public work system. This paper analyzes the problems and figures out solutions from the viewpoint of donor and the participant.

*Key words :* ODA, Grant project, Project management

## 1. HISTORY OF JAPAN'S ODA

### 1.1. Start of Technical Assistance

On 6<sup>th</sup> October, 1954, the Japanese Cabinet decided to participate in Colombo Plan and from 1955, Japan has started the technical assistance on Government -Government base (herein after called G-G base) in such a form of receiving trainees and dispatching experts.

### 1.2. Start of Financial Assistance

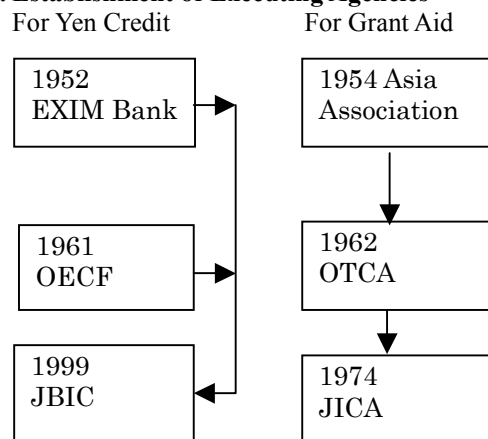
Financial assistance was started with the treaty of peace, reparations and economic cooperation concluded between Japan and Burma in November, 1954. Since then Japanese Government concluded a reparations treaty with Philippines, Indonesia and Vietnam. And as the quasi-reparations, non reimbursable financial aid was provided to Cambodia, Laos, Thailand, Malaysia, Singapore, Korea and Micronesia. This type of financial assistance to provide with reparations has become the proto-type of Japan's ODA to put higher priority on Asia. Total amount of reparations reached US\$ 1,012 thousand, and quasi-reparations reached US\$ 495,789 thousand (1 US\$ = Yen 360). Non reimbursable financial assistance, so-called grant aid not related with reparations actually started in 1969 with aid for construction of refugee's houses in Vietnam.

### 1.3. Start of Yen Credit

In 1958, Japan has financed US\$500,000 to India with a concessionary rate of interest to assist purchase of power generators, ships and tractors. This finance marked the beginning of Yen Credit. In 1950s and 1960s, on the other hand, as one of the Japan's issue was the export, procurement condition of the above reparations and Yen Credit was tied to Japan, expecting increase of export which will benefit to Japanese economy. By 1970, 23 developing

countries received Japanese Yen Credit.

### 1.4. Establishment of Executing Agencies



**Figure 1.** Executing Agencies

In 1952, Japan Export and Import Bank (EXIM Bank) was established. Financial assistance was executed through the Bank. In 1954, Asia Association was established to execute the technical cooperation. In 1961, OECF- Overseas Economic Cooperation Fund was established to execute Yen Credit. In 1999, OECF and Japan Export and Import Bank were merged into JBIC- Japan Bank for International Cooperation. In 1962, OTCA- Overseas Technical Cooperation Agency was established to execute technical cooperation, absorbing Asia Association. In 1974, OTCA was reformed to JICA- Japan International Cooperation Agency who is executing technical cooperation and grant aid. These changes are shown in Figure 1.

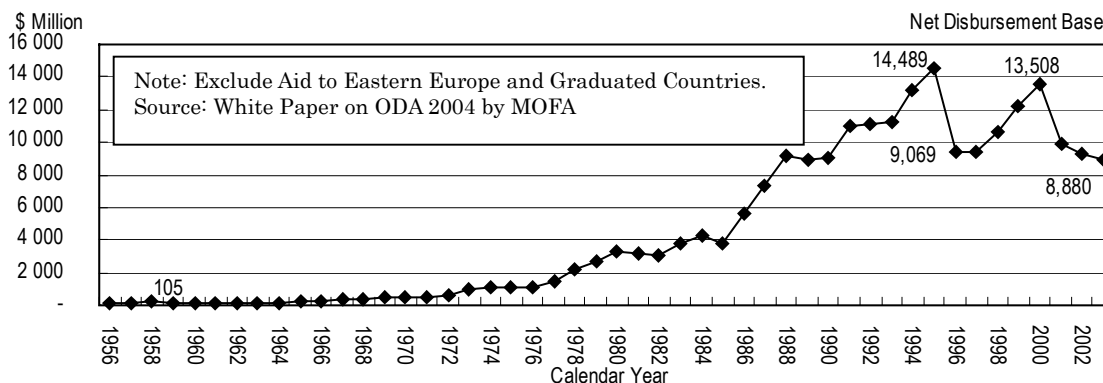


Figure 2. Change of Japan's ODA Disbursement (1956-2003)

Source : White Paper on ODA 2004, Ministry of Foreign Affairs

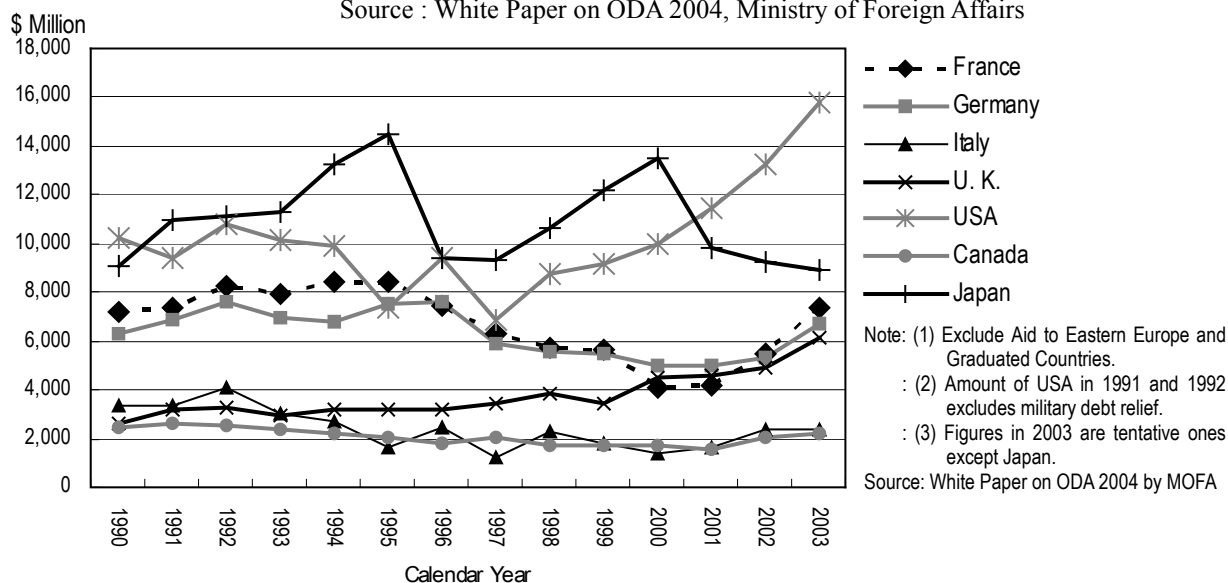


Figure 3. Disbursement of ODA of Main Member Countries of DAC (1990-2003)

Source: White Paper on ODA 2004, Ministry of Foreign Affairs

### 1.5 Change of Volume

In 1970s, Japanese economy has rapidly expanded and the trade surplus increased year by year. The international opinion

requested Japan to return the trade surplus to the international society through ODA. In 1973 when oil crisis occurred, Japanese societies asserted that oil resources should be secured by way of providing ODA to the oil producing countries. In the background of such discussion, there was a strong opinion that ODA should be utilized for national security because by the Constitution Japan is prohibited to contribute to the international security by military activities while other developing countries can exercise military influence under the cold war. ODA was considered to substitute military activities<sup>[1]</sup>.

Under such background, in 1978 the Japanese Government announced the First ODA Medium Term Plan to double the ODA amount in 3 years from US\$ 1,420 million attained in 1977. Since then, the amount of Japanese ODA was increased every year. In 1983, Japanese ODA amount reached US\$ 3,761 million, being ranked 3<sup>rd</sup> biggest in DAC( Development Assistance Committee) countries exceeding Germany, and in 1986 Japan was ranked 2<sup>nd</sup> in DAC with amount of US\$ 5,634 million surpassing France. In 1989, net disbursement amount reached US\$ 8,965

million exceeding that of USA for the first time to become the biggest donor country. During 1990s, total amount of ODA of the world tended to be decreased, but for the 10 years from 1991 to 2000, Japan has supplied about 20 % of the ODA by DAC countries and kept the position of the biggest donor.<sup>[2]</sup> After that, because of financial constraint, net disbursement amount of Japan's ODA has been continuously decreased as follows;

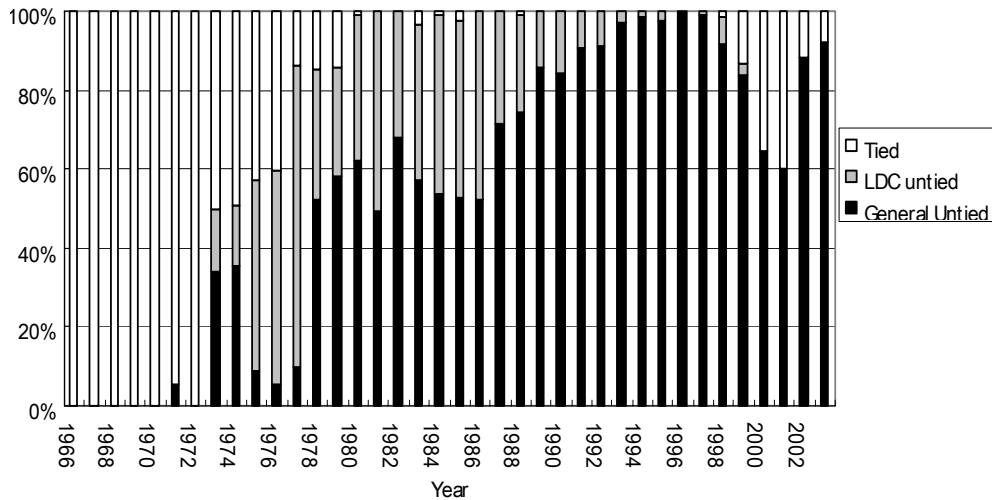
Year	2000	US\$ 13,508 million
2001	9,847	
2002	9,283	
2003	8,880	

Main part of decrease was due to decrease of Yen Credit. In 2003, net amount of disbursement of Yen Credit decreased by 34.8 % on US Dollar base compared with 2002. This change is shown in the following Figure 2.<sup>[3]</sup>

For comparison purpose, the disbursement amount of main member countries of DAC during 1990 and 2003 is shown in Figure 3.

### 1.6 Change of Categories

Urgent Aid to Disaster, Cultural Grant Aid and Food production Increase Grant Aid was started in 1973, 1975 and 1977 respectively. About 1970, IMF and the World Bank proposed the idea to aid in the field of Basic Human



**Figure 4. Procurement Condition of Yen Credit**  
 Source: White Paper on ODA 2004, Ministry of Foreign Affairs

Needs (BHN) stating that ultimate purpose of the development is sustainable improvement of the welfare of the individual.

This proposal changed the tide of the ODA from putting importance on economic growth to paying attention to the poverty of the developing countries. Japan has increased the aid to BHN. Its share increased to 23% in 1978 from about 18% in 1977 and the share is kept in the percentage of 20 to 30s since then. Facing the situation that many developing countries fell in debt crisis after 2 oil shocks in 1970s, in 1979, the World Bank started the structure adjustment loan. In 1985, the World Bank created the Special Fund to support Sub-Saharan countries where the burden of debt was heavy and economic structure was weak, and requested the donors for co-financing. Since 1986, Japan has provided structure adjustment loan meeting to the request of the World Bank.

### 1.7 Separation from Export

In 1960, Japan has accomplished high rate of economic growth, which made the link of ODA and export very weak. So, in 1972 the Japanese Government, by cabinet decision, adopted the policy to untie the procurement condition of the Yen Credit. In 1980, almost 100 % of untied was realized. This change is shown in Figure 4.

### 1.8 Philosophy and policy of Japan's ODA

The Gulf War in 1991 gave a chance to Japanese Government to review relationship between ODA and the issues of democratization, human right and military policy of the recipient countries of ODA. In 1991, Japanese Government announced 4 principles, one of which is to pay full attention to the military expenditures of the developing countries. In 1992, ODA Charter describing medium and long term and comprehensive aid policy was developed. As the basic idea, (1) Consideration of human rights (2) Recognition of interdependence (3) Conservation of Environment (4) Aid to self-help efforts of the developing countries for take-off were presented. Japan's ODA has been executed applying the above mentioned 4 principles and ODA Charter. For example, in

1998 Japan has suspended provision of new Yen Credit and Grant Aid to India and Pakistan who made a nuclear test. Japan's ODA has been strengthened by region and country. With the main recipient countries, Japan has held meetings to discuss economic policies and from 1993, based on such discussion, medium and long term aid program by each country has been developed. About Africa, Japan has kept her leading position in the development aid and held Tokyo International Conference on African Development (TICAD) in 1993, 1998 and 2003 where self-help efforts of African countries and partnership of the international society were advocated. By sectors and issues also, Japan's ODA has been enhanced. Aid for public health including protection against infectious diseases, primary education, and conservation of environment and improvement of women's status has been increased.

Since the latter half of 1990s, because of financial constraint, Japan was obliged to review the expansion of volume of ODA. In 1997, Japanese Government adopted the policy of "Change from volume to quality", and since 1998 budget for ODA has been decreased by 30% in 7 years.

On the other hand, after 2001.9.11 terrorisms, USA noticed the importance of development and increased the amount of ODA. In 2001, the net disbursement amount of ODA of USA exceeded that of Japan after 10 years.

In 1999, Japanese Government developed "Medium Term Policy of ODA" that presented how to execute ODA focusing on the quality of ODA. With this policy, the system that ODA will be carried out under ODA Charter together with Medium Term Policy and aid program by country has been established. In 2002, review of ODA Charter was started to get the people understood more of ODA. The ODA Reform Committee under the Foreign Minister advised following 3 directions;

- 1) Participation of the people
- 2) Secure of Transparency
- 3) Improvement of Efficiency

To meet the first point, the Japanese Authorities concerned with ODA have strengthened the cooperation with NGO. The ODA Charter was revised in 2003.

## 2. POLICY OF JAPAN'S ODA

### 2.1 Objectives of Japan's ODA

According to the ODA Charter which was developed in 1992 and revised in 2003, objectives of Japan's ODA are as follows;

1. To contribute to the peace and development of the international community, and thereby to help ensure Japan's security and prosperity.
2. To contribute to address such issues as poverty, conflicts, terrorism, infectious diseases, environmental problems and gender making use of ODA, taking advantage of her experience.
3. Japan enjoys the benefits of international trade and is heavily dependent on the other countries for resources, energy and food. Japan's ODA will contribute to the stability and development of developing countries.
4. For Japan who aspires for world peace, actively making efforts with ODA and manifesting this posture both at home and abroad is the most suitable policy for gaining sympathy and support from the international community for her position.

### 2.2 Basic policies of Japan's ODA

1. Utilization of Japan's experience and expertise
2. Partnership and collaboration with the international community
3. Supporting self-help efforts of developing countries.
4. Perspective of "Human Security"
5. Assurance of fairness

### 2.3 Priority issues of Japan's ODA

1. Poverty Reduction
2. Sustainable growth
3. Addressing global issues such as environmental problems, population, food, energy, natural disasters, infectious diseases, terrorism, drugs and internationally organized crimes.
4. Peace-Building

## 3. THE CONTEMPORARY SITUATION OF JAPAN'S ODA

### 3.1 Objective Countries and Sectors

Objective countries of Japan's Grant Aid are decided with amount of GNI per capita. General Grant is provided to the country with equal to or less than US Dollar 2,450 of GNI per capita. As Table 1 shows, about 50 % of total Grant Aid amount is provided to the Asian countries with which Japan has strong relationship in trade and investment.

**Table 1.** Regional Distribution of Grant Aid in 2003  
(Net Disbursement base. Unit : US\$ Million)

Region	Amount	Share %
Asia	727.53	42.8
Middle East	251.27	14.8
Africa	425.77	25.1
Middle, South America	139.23	8.2
Oceania	37.28	2.2
Europe	71.01	4.2
Not Classified	46.95	2.7
Total	1,699.03	100.0

Source : White Paper on ODA 2004, MOFA

Objective sector covers almost all sectors such as transport, health care, communication, energy and water. As Table 2 shows, aid to the social infrastructure shares more than 70 % of the total amount in 2003.

**Table 2.** Sectoral Distribution of Grant Aid in 2003  
(E/N base. Unit : US\$ Million)

Sector	Amount	Share %
Social Infrastructure	661.60	71.8
Economic Infrastructure	169.15	18.4
Manufacturing Sector	88.72	9.6
Multi Sector	1.98	0.2
Total	921.46	100.0

Source : White Paper on ODA 2004, MOFA

### 3.2 Decrease of Amount

Because of financial constraint, net disbursement amount of Japan's ODA has been continuously decreased as Table 3 shows:

**Table 3.** Net Disbursement amount since 2000  
Unit: US\$ Million

Year	Net Disbursement
2000	13,508
2001	9,847
2002	9,283
2003	8,880

Main part of decrease was due to decrease of Yen Credit. In 2003, net amount of disbursement of Yen Credit decreased by 34.8 % on US Dollar base compared with 2002.

### 3.3 Change of Quality

The revised ODA Charter introduced the perspective of "Human Security" which focuses on individuals. ODA will be implemented to strengthen the capacity of local community through human resource development. This policy will lead to the increase of share of technical cooperation, because the human resource development needs specialists with expertise in this field not only infrastructure such as the schools or public halls. Actually, share of technical cooperation in the bilateral ODA reached 43.4% in 2003, while in 2002 the share was 24.3 %

## 4. NON-REIMBURSABLE AID (GRANT AID) IN JAPAN'S ODA

### 4.1 Types of Grant Aid and the Procedures

There are 2 types of ODA in Japan's ODA system.

One of them is reimbursable aid, so called Yen Credit which extends a financial assistance with soft conditions to the developing countries.

The other is non-reimbursable aid, generally called Grant Aid which extends a financial assistance as a grant to the recipient Government. In this type, there are 5 categories;

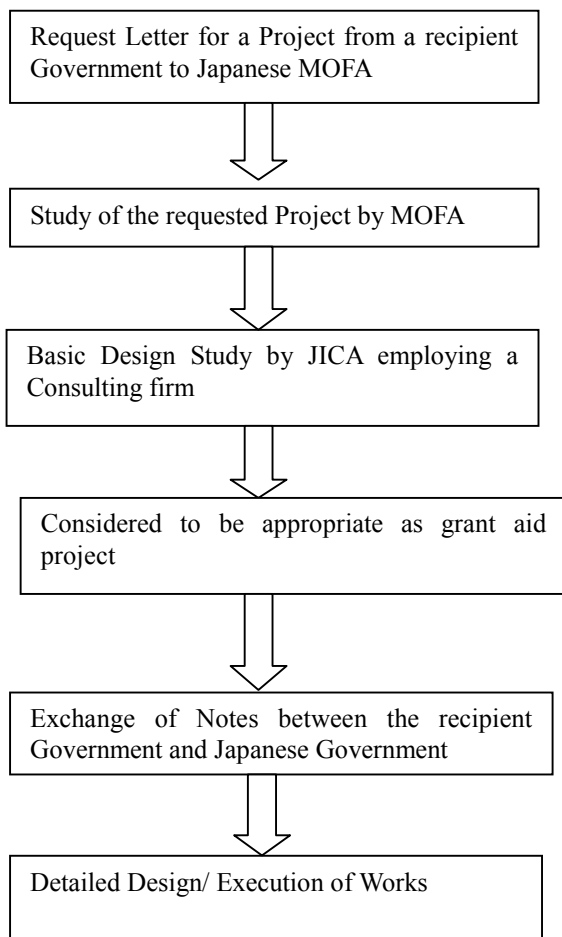
1. General Grant: Aid for the implementation of a project including provision of equipment.
2. Fishery Grant: Grant to promote and develop fishery industry in a developing country.
3. Food Aid (Kennedy Round): Grant of food, mainly rice or wheat.

4. Grant to increase the production of food (Kennedy Round II)
  5. Culture Grant: Aid for strengthening the cultural relationship with the developing countries.
- Technical Cooperation is a kind of the grant aid, but it is categorized independently.

#### 4.2 The Procedures of General Grant Aid

The authors will discuss mainly on the General Grant, because the amount of this category is the biggest and the related projects covers almost all sectors. In 2003, net disbursement amount was US\$ 1,699.03 million, sharing 28.6 % in the bilateral assistance.

The procedures of the General Grant are as follows;



**Figure 5.** Procedures of General Grant Aid

1. Request letter from the developing country for a provision of specific equipment or facility is addressed to Japanese Ministry of Foreign Affairs (MOFA). The principle of the Request comes from the Japanese policy to support self-help efforts of a developing country.
2. With the instruction of MOFA, JICA employs a consulting firm for a basic design study to decide specifications, cost and time needed for a project. With this report, MOFA gets approval of the cabinet to extend the Grant Aid for the project and exchanges the notes with the government of the recipient country.
3. When Exchange of Notes are arranged, JICA issues a

letter to the recipient government recommending the consulting firm who made basic design study as a proper consultant to make detailed design and supervision of the project.

4. The recommended consulting firm makes a contract with the recipient government to prepare tender documents and assist for tender procedures from tender invitation to award of contract. They supervise delivery of equipment or construction of the projected facilities.

## 5. PROBLEMS OF GENERAL GRANT AID SYSTEM

### 5.1 Principle of Single Fiscal Year

Japan's Grant Aid system makes it principle to execute within a fiscal year. Therefore, time schedule is so tight that, sometimes, period of Basic Design Study is too short to make a satisfactory study.

### 5.2 No contingency is estimated:

According to the guideline of JICA for cost estimate, items to be included in the estimate in a construction project are as follows;

- (a) Construction Cost
  - (a-1) Direct cost
  - (a-2) Temporary works
  - (a-3) Transport & packing cost
  - (a-4) Expenses to dispatch engineers
  - (a-5) Site expenses including personnel expenses
  - (a-6) General administration expenses
- (b) Machinery Cost
- (c) Detailed Design and Supervision Cost

As above any contingency is not included. In the Exchange of Notes, the amount of project cost is defined and can not be changed during the construction period. That means the contractor must bear the increased cost.

### 5.3 No additional cost and extension of time

As there is not any contingency, it is a natural conclusion that additional cost and extension of time can not be accepted. The model of contract between the Recipient Government and the Contractor made by JICA stipulates as follows on disputes and arbitration;

- 1) This contract shall be executed by the parties hereto in good faith, and in case any doubtful point is raised or any dispute occurs concerning the interpretation or performance of this Contract, such matters shall be settled through consultation of the parties.
- 2) In the event that an amicable settlement cannot be reached through consultation, the matter shall be referred to arbitration.

On the other hand Basis of Contract is defined as follows; "Any and all stipulations of this Contract shall be consistent with content of the Exchange of Notes. Should any of the stipulations of this Contract be in conflict with the Exchange of Notes, such stipulations shall be deemed null and void ab initio."<sup>[4]</sup>

The reason why the contingency is not included in the model contract of JICA is that they followed after the Japanese Standard Conditions of Contract applied to the public works in the domestic market.

The Standard Conditions of Contract is based on only Lump-sum Type of contract<sup>[5]</sup> and all the articles in the Contract are set up strictly in accordance with the Accounting Laws and Regulations in the country that basically have no philosophy regarding contingency in project budget allocation.

## **6. PROPOSALS FOR IMPROVEMENT OF SYSTEM**

### **6.1 Contingency Plan**

It is not fair to oblige the contractor to bear the loss from unexpected increase of cost. At least, contingency for price escalation shall be prepared. From the past record of the project under Yen Credit, 5 % of the total construction cost will be sufficient.

### **6.2 Claim for additional cost and extension of time**

If contingency is prepared, claims for additional cost and extension of time by the contractor can be acceptable. Claims shall be settled in accordance with the procedures stipulated in the internationally prevailing standard of contract. It will give a good chance to study the global standard of contract to the contractors and the consultants. From such viewpoint, contingency shall be prepared first.

### **6.3 Improvement of Exchange of Notes to include contingency**

As the Basis of Contract of the contract of JICA is the Exchange of Notes (E/N) between the Japanese Government and the recipient Government, the contents of the E/N shall be improved so that amount of contingency and the procedures of re-allocation of the contingency shall be stipulated.

### **6.4 Longer period of Basic Design Study**

Period of basic design study shall be set longer considering the capability of the local consulting firms and availability of the equipment required for the survey. It will improve the quality of study and accuracy of cost estimate.

### **6.5 Introduction of Construction Management Method**

To decrease the cost, construction management method shall be introduced where reliable sub-contractors are available. Advantages of this method are as follows;

- a) Local materials will be utilized as much as possible.
- b) Technical transfers to the local contractor will be enhanced..
- c) Employment of local engineers, technicians and labors will be increased, which will lead to the increase of income of the site region.

### **6.6 Client's Responsibility & Ownership and Transfer of Technology**

Existing grant-aid execution system could not encourage clients to take responsibility of planning and design of a grant-aid project, because design, procurement and construction are executed by Japanese consultants and contractors. If the local human resource is not capable enough to handle a project in question, part of the ODA should be allocated for the local human resource

development. In some projects to provide construction machineries, there is an item of technical assistance under the name of "soft component" to train the operators after delivery of the equipment. This system of technical assistance should be introduced in the stages of Basic Design, Detailed Design and Execution of the project in the construction project. Sense of responsibility and ownership would then be expected with active participation of local human resources.

## **7. CONCLUSION**

Since 1954 after participation in the Colombo Plan, Japan has provided Official Development Assistance to 185 countries and areas, and the total amount of Japanese ODA is approximately US\$ 221 billion for 50 years period of time. Japan is the second largest ODA country in the world now. It must be the time to reconsider to restructuring the system of ODA.

Practically, the biggest and the fundamental issue is that in the field of civil works and building project, the contractors are obliged to bear the unexpected increase of cost. To avoid such a kind of exploitation by the project owner and donor, contingency plan shall be introduced. Those kinds of problems of the Japan's grant aid system have been discussed and solutions have been proposed. However, it is still not figure out real solutions of problems. The biggest and the fundamental problem is that Japan's ODA system, especially the grant aid system is strongly based on the domestic public work system, such as the one fiscal year budgeting system, 2 actors standard conditions of contract, etc. It must be required to restructuring those matters for setting up effective system of ODA.

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