



INCREASES IN JAPAN'S ODA/GNI RATIO: SHOULD WE CELEBRATE IT?

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SUMMARY

- Japan's aid volume (ODA) and its ODA/GNI ratio officially rose between 2017 and 2019, despite that fact that its aid actually did not increase. Rather, these increases were the result of changes in the OECD's Development Assistance Committee's (DAC) definition of ODA and the accompanying statistical rules and methodologies. Under the new grant-equivalent methodology, repayment of loans which makes up the major component of Japan's aid program, is no longer deducted from a country's ODA. An examination of the figures based on the net disbursement methodology, reveals that Japan's aid volume did not increase. ODA based on this methodology was lower in 2019 than 2017.
- Japan's aid program has two main characteristics. The first is its heavy use of loans. In fact, over 70% of Japan's aid is provided as loans, and the proportion of loans in Japan's ODA program has gone up in the past decade. A second characteristic is an emphasis on economic infrastructure, something which has also strengthened over the past decade. One reason for this profile is that economic infrastructure support is a pillar of the government's "Free and Open Indo-Pacific" strategy, reportedly a strategy

to contain or compete with China's rising influence.

- In recent months Japan has provided support to 50 countries to help them respond to the COVID-19 crisis. A major concern, however, is that a significant proportion of this assistance has been provided in loans, particularly to several countries in Asia.

- A new DAC Peer Review report for Japan was launched in October 2020. CSOs sent their key messages during the process. The Peer Review recommendations include that Japan should develop and implement a plan for achieving the 0.7% ODA/GNI ratio and that Japan should develop a clear approach to poverty reduction and ensure that the needs of those left behind are addressed.

TAKING A CLOSER LOOK JAPAN'S AID VOLUME

Japan performance on ODA volume has benefitted as a result of the "modernisation of ODA" by the OECD's Development Assistance Committee. In 2017, Japan's ODA was US\$11,634 million, which was 0.23% of its GNI. In 2018, this volume jumped to US\$14,164 million, representing 0.28% of GNI. In 2019 volume increased even further to US\$15,224 million and 0.29% of GNI.¹ Is this a case for celebration? Does it mean that Japan dramatically increased its aid in 2018 and 2019? Unfortunately, the answer is a definite No. Instead, this increase is a function of changes in ODA's definition and corresponding statistical rules and methodologies. The figures up to 2017 were calculated based on net ODA, roughly speaking - gross disbursement minus repayment of loans from partner countries. In 2018, the rules were changed. So that ODA is now calculated based grants plus the grant equivalent for loans - that is, "multiplying the annual disbursements on the loan by the loan's grant element as calculated at the time of the commitment."²

According to OECD,

"The implementation of the ODA grant equivalent methodology added 2.5% to 2018 ODA levels for all DAC countries combined, with impacts on individual country figures ranging from 40.8 % for Japan, 14.2% for Portugal and 11.4% for Spain to -2.7% for Korea, -2.8% for France, -2.9% for Belgium,

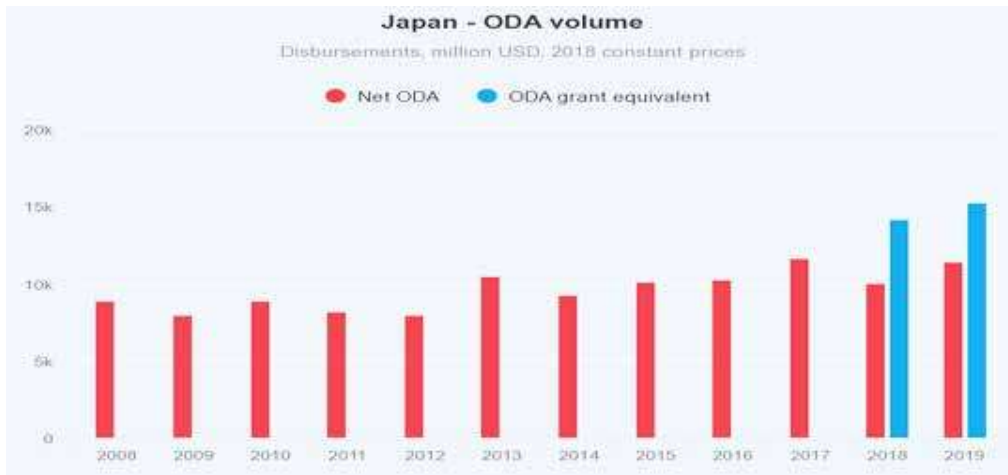
*and -3.5% for Germany. In 2019, the ODA grant equivalent methodology added 3.7% to ODA levels for all DAC countries combined, with significant impacts on a few countries: Japan (+33%), Portugal (+8%) and Spain (+9%)."*³

It would seem that Japan has "benefitted" the most from the "modernisation" of the revised ODA statistical methodology. Figure 1 below reveals that Japan's ODA volume, based on the traditional net disbursement methodology, decreased in 2018 and increased in 2019, although it did not reach 2017's levels.

Why and how did Japan "benefit" from these changes to grant-equivalency for loans? Historically, the proportion of loans among Japan's ODA has been significantly higher than other DAC members. Until 2017, according to the net disbursement methodology, a huge amount of repayment from partner countries (about US \$ 7 billion in 2018) was deducted, but with the new grant equivalent methodology implemented in 2018, this is no longer the case.

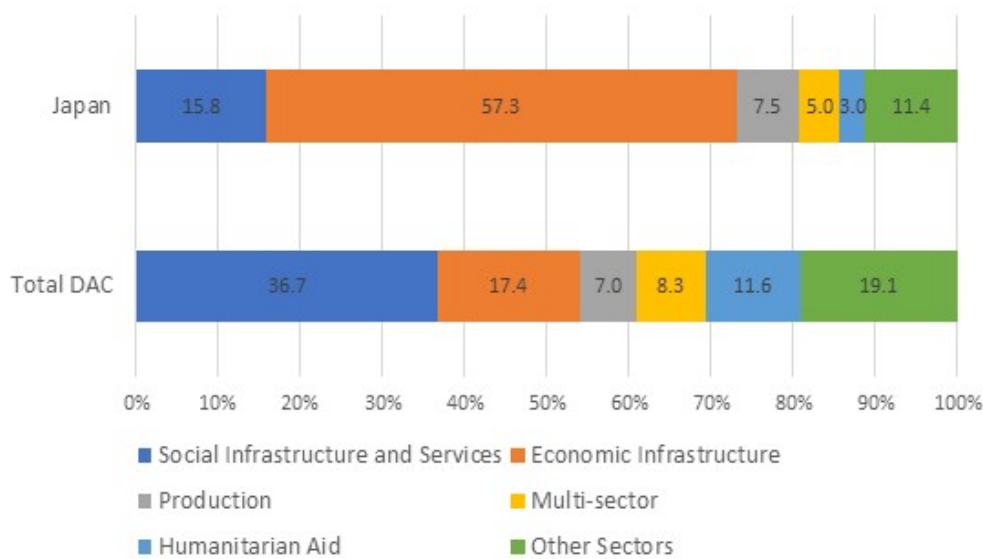
Japan's ODA/GNI ratio is still far below the internationally agreed target of 0.7%, and the government does not have a time frame to achieve it. The recent DAC peer review recommends that "Japan should develop and implement a plan to increase ODA level in line with its international commitment to allocate 0.7% of gross national income."⁴

FIGURE 1



Source: OECD, Development Co-operation Profiles, <https://www.oecd-ilibrary.org/sites/b8cf3944-en/index.html?itemId=/content/component/b8cf3944-en> (accessed 20 September 2020).

FIGURE 2: SECTORAL ALLOCATION OF ODA (COMMITMENT 2018, %)



Source: OECD, Development Cooperation Profiles

JAPAN’S INCREASED USE OF LOANS IN ITS AID PROGRAM

A long-time, constant feature of Japan’s aid program is its heavy use of loans. For example, in 2018 eighteen out of 29 member countries provided 100% of their ODA in grants, and DAC members in total provided 78.5% of their ODA

in grants. In contrast, less than 30% of Japan’s bilateral aid and slightly more than 30% of its total aid was provided as grants. Japan’s grant element for its whole aid program in 2018

was 78.5%. It failed to meet the internationally agreed norm of 86%.⁵

A major concern is that the proportion of loans in Japan's ODA has recently increased. The share of grants in its ODA was between 40% and 50% in the 2000s but stands at approximately 30% in recent years.

Throughout Japan's ODA history, loans instead of grants have been the dominant means of financial assistance, requiring a large amount of loan repayment from partner countries. As the loan repayment principal is no longer deducted under the new grant equivalent methodology, the ODA/GNI ratio of Japan went up, as noted above.

LARGE ALLOCATIONS TO ECONOMIC INFRASTRUCTURE, ESPECIALLY TRANSPORTATION

Figure 2 provides an overview of Japan's 2018 ODA sectoral allocations against the relevant shares for all DAC members. As demonstrated, Japan's sectoral allocation differed markedly from the totals for all or most DAC members. Japan allocated nearly 60% of its ODA to economic infrastructure with nearly 90% of this amount going for transport and storage. This priority compares with its aid for social infrastructure (education, health, population, water, government and civil society, etc.) and humanitarian aid, which were significantly less than for most DAC members.

Throughout the 2010s, Japan strengthened its emphasis on economic infrastructure. The allocation for this sector was 52% in 2015-

16, 48% in 2013-14 and 41% in 2012.⁶ The increased aid for economic infrastructure is a reflection of prioritizing "quality growth" and poverty eradication through such growth" in the Development Cooperation Charter (2015). It is consistent with the government's growing emphasis on "high-quality infrastructure." It may also be partly due to a demand from the business community to increase economic infrastructure aid in order to give business opportunities to Japanese corporations.⁷

Because of the global COVID-19 pandemic, Japan's allocation to social infrastructure, particularly health, is expected to rise in 2020, which will be addressed in a later section.

INSTRUMENTALISATION OF AID FOR THE GOVERNMENT'S "FREE AND OPEN INDO-PACIFIC"

"Quality infrastructure" is considered to be one of the pillars of the "Free and Open Indo-Pacific" (FOIP) strategy, as announced by Prime Minister Shinzo Abe (stepped down because of illness in September 2020) in 2016.⁸ ODA is recognized as an essential instrument of this strategy.⁹ Many economic infrastructure aid projects in Asian and some African countries (those facing the Indian Ocean) are part of FOIP. Examples include roads and highways development in Vietnam and Cambodia, port development in Sihanoukville, Cambodia and Mombasa, Kenya

and the Mumbai – Ahmedabad speed train in India.¹⁰

Then Prime Minister Abe maintained that cooperation with China was necessary for the implementation of FOIP. However, FOIP is often identified as a mechanism to compete with China's "Belt and Road" strategy and its rising influence in the "Indo-Pacific" region. Commercially, FOIP is also seen as a means of business competition with China in infrastructure development in the region.

JAPAN'S COVID-19 RESPONSE: EMPHASIS ON LOANS

At the time this chapter was written (September 2020), Japan's aid had not been cut because of the COVID-19 crisis. In fact, since the global outbreak began, the government has announced support for over 50 partner countries responding to the crisis. Examples of initiatives with over one billion Yen¹¹ in support include:

- Myanmar: 2 billion Yen in grants, 30 billion Yen in loans
- Cambodia: 2 billion Yen in grants
- Philippines: 2 billion Yen in grants, 50 billion Yen in loans
- Mongolia: 1 billion Yen in grants
- Bangladesh: 1 billion Yen in grants, 35 billion Yen in loans
- Indonesia: 2 billion Yen in grant, 50 billion Yen in loans
- India: 1 billion Yen in grants, 50 billion Yen in loans

- Vietnam: 2 billion Yen in grants¹²

In addition to small grants for COVID-19 support, there have been a significant number of loan projects provided to countries in Asia. The terms and conditions (number of years for repayment and interest rate) are considerably more generous than Japan's usual requirements for its loan projects and programs. They will have a large grant-equivalency. But from the perspective of civil society organizations' (CSOs), grants would be greatly preferred to loans, however lenient the conditions. In its CSO key messages for the DAC High Level Meeting (HLM) in 2020 the DAC-CSO Reference Group, called on the DAC members to "disburse ODA in the form of grants, since many developing countries are in debt distress, with low capacities to absorb additional loans."¹³

DAC'S 2019 PEER REVIEW AND CSOS REACTIONS

In 2019/20, Japan was the subject of a DAC Peer Review. The reviewers were the European Union and Italy. The headquarter and field visits (Cambodia and Ghana) were carried out in late-2019 and early-2020, and the report was launched in October 2020. CSOs prepared their own shadow report for the Peer Review. Among the key messages of the Review is that ODA should be more focused on poverty reduction and that the government should reconsider their heavy use of loans and significant allocations to economic infrastructure.¹⁴

The Review pointed out that "Japan does not yet have a clear integrated approach, guidance or tools to ensure – and ascertain whether – its growth-enhancing priorities delivers shared benefits to everyone, including those furthest behind." It recommended that "Japan should develop a clear approach to poverty reduction

and specific guidance on designing, monitoring and evaluating its ODA interventions to maximise their contribution to poverty reduction and to address the needs of those left furthest behind."¹⁵ From a CSO perspective, this recommendation is important and they hope it is taken seriously by the government.

How Japan's aid program partners with CSOs was an issue highlighted in the Peer Review. While total aid channelled to and through CSOs for all DAC members was 15.1%, only 1.7% of Japan's ODA was directed through CSOs. Also, Japan's aid projects with CSOs are for the most part project-based. The Peer Review recommended that Japan should provide "greater institutional support to civil society organisations in Japan and partner countries as strategic partners and development actors in their own right."¹⁶

CONCLUSION

A superficial review of recent trends in Japan's ODA/GNI ratio would seem to indicate that it had increased from 0.23% in 2017 to 0.29% in 2019. Unfortunately, in reality, these numbers are misleading. Instead, it was merely the result of changes in the statistical methodology for ODA at the DAC.

As noted above, Japan's ODA program, with its emphasis on loans and significant allocations for economic infrastructure rather than social infrastructure, has always been quite different from that of other DAC members. These tendencies have been strengthened in the past decade. CSOs hope that the Peer Review

recommendation asking for a clear approach to poverty reduction will be taken seriously by the government.

Japan's allocations of aid in the health sector in response to the global COVID-19 pandemic might bring about changes in sectoral allocation, which would be welcome. But against this outcome is the fact that a significant number of loans have been part of this aid package to several countries in Asia. These loans may increase the debt burden of the partner countries in the future.

ENDNOTES

1. OECD, Development Co-operation Profiles. (<https://www.oecd-ilibrary.org/sites/b8cf3944-en/index.html?itemId=/content/component/b8cf3944-en>: accessed 20 September 2020). All figures are based on 2018 constant prices.
2. OECD, "What is ODA," 2020. (<https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/What-is-ODA.pdf>: accessed 21 September 2020).
3. OECD, "Methodological notes on the Development Co-operation Profiles 2020," (<https://www.oecd-ilibrary.org/sites/5d646dd8-en/index.html?itemId=/content/component/5d646dd8-en>: accessed 20 September 2020)
4. *OECD Development Co-operation Peer Reviews: Japan 2020*.
5. OECD, Development Finance Data.
6. Akio Takayanagi, "Emphasizing SDGs but Increased Instrumentalisation Under the New Development Cooperation Charter," *The Reality of Aid 2018*;"Japan: Recent Trends in Aid Policy and Technical Cooperation," *The Reality of Aid 2016*.; "Japan's On-going Revision of the "ODA Charter," *The Reality of Aid 2014*.
7. In 2013, Keidanren (Japanese Business Federation), in its policy paper on ODA, advocated that in order to expand Japanese corporations' business opportunities, the share of ODA, especially loans for economic infrastructure should be expanded. (<https://www.keidanren.or.jp/policy/2013/061.html>. Available in Japanese language only. Accessed 16 October 2020)
8. Government of Japan, "Towards a Free and Open Indo-Pacific," 2019. (<https://www.mofa.go.jp/files/000407643.pdf>: accessed 29 September 2020)
9. Ministry of Foreign Affairs, *White Paper on Development Cooperation* 2019, p.21.
10. Government of Japan, "Towards a Free and Open Indo-Pacific," 2019, op.cit.
11. At the time of writing this chapter (late-September 2020), about 105 Yen is US \$1.
12. Press releases of Ministry of Foreign Affairs.
13. DAC-CSO Reference Group, "Not Business as Usual: CSO Messages for the DAC HLM 2020."
14. JANIC, *Civil Society Report for OECD-DAC Peer Review: Japan, 2019*.
15. OECD Development Co-operation Peer Reviews: Japan 2020.
16. Ibid.