



# JAPAN'S ODA STILL GOING STRONG

Bert Edström

*In the 1990s, Japan was the world's top donor. This position was lost in 2001, after a prolonged economic slump, a deteriorating fiscal situation, and increasingly critical public view of ODA made the Japanese government start cutting development assistance. Yet figures show that Japan's ODA is still going strong.*

When Dr. Sadako Ogata was about to retire as the head of the Japan International Cooperation Agency (JICA), the Official Development Assistance (ODA) agency of the Japanese government, the *Japan Times* published an interview with her. In passing it is noted: "With a high point of ¥1.16 trillion in 1997, the ODA budget has since declined for 13 consecutive years" (*The Japan Times*, March 31, 2012).

This came as a surprise to few. It is common knowledge that Japan's ODA is not what it used to be. In the 1990s, Japan was the world's top donor. The impressive economic growth that Japan had had for decades spilled over to aid to other countries. By 1990, Japan began to be described as an "Aid Great Power" and it kept its position as the world's largest ODA donor throughout the decade. Despite Japan's largely dismal economic performance in the 1990s, ODA continued to be sizeable. Japan's aid surpassed even that of the United States.

In 2001 Japan lost its prized position as the world's largest donor (in nominal volume terms); Japan's 2002 ODA White Paper clarified why. The prolonged economic slump from the beginning of the 1990s, a deteriorating fiscal situation, and increasingly critical public view of ODA made the government reduce development assistance. It soon became an annual ritual to announce that allocations to ODA had been cut.

## Cuts Taking Their Toll

The annual cuts took their toll. This can be seen in surveys issued by OECD's Development Assistance Committee (DAC). Every five years the ODA policy of a member country is scrutinized by the DAC. The most recent such survey on Japanese ODA was issued in 2010, it covers the situation up to 2008; the previous one came out in 2005,

covering the period up to 2003. For a Swede, the data provided are quite amazing. According to the DAC report, Japan's net ODA was US\$9.58 billion in 2008, while that of the Netherlands amounted to US\$6.99 billion (figures in current value) (*DAC Peer Review of Japan 2010*, p. 93). Thus, the net ODA of the economic great power Japan was only double that of such a rather small European country. From being the "No. 1" in the 1990s, Japan has become a country that has to compare itself with middle-sized European countries. Something has happened.

No wonder that many Japanese are worried about Japan's image. Japanese don't like to pay taxes but they care about their country's image – and cuts have surely had an impact on the way other countries view Japan. Thus, not only does Japan exhibit lousy economic growth figures, its ODA has also shrunk considerably. Once Japan's ODA figures were impressive, but the figures presented by the DAC do not give the impression that Japan is a country with great ambitions. The DAC report shows that Japan as an "ODA Superpower," the rallying cry for many proud Japanese in the 1990s, has become history.

## But...

There is something fishy about the message disseminated from the DAC in Geneva that Japan as an aid donor has shrunk from being "No. 1" to not being much better than middle-sized European countries. The problem has to do with how ODA is defined. According to the DAC, to qualify as ODA, loans provided must convey "a grant element of at least 25 percent." The DAC definition results in that a large part of what is in reality Japanese aid does not count as ODA, for the simple reason that what Japan has provided are often loans lacking the 25 percent grant element.

The reason for this resides in Japan's aid philosophy



that differs from most other Western countries – for good reasons, at least in Japanese eyes. Japan’s views on aid are based on its own historical experiences. Japan was once a very poor country; it has been ravaged by war and natural catastrophes. Diligence and devotion of generations preceding the present one built up the country to its present prosperity. Its aid philosophy is based on this history. After the Second World War, the World Bank provided credit for Japan’s post-war reconstruction. At that time, Japan needed to finance large-scale infrastructure projects and did this with loans. This taught the Japanese the usefulness of loans promoting “self-help efforts” that respect more ownership of the aid recipient. Japan applies this lesson from history onto its ODA. Japan has provided loans in the past, loans that have been long-term, with favorable conditions and a very low interest. Japan prefers to provide loans rather than grants since it promotes discipline of the aid recipient; it was good for Japan, so it’s seen to be good for other countries too. In Japanese eyes, the requirement to repay encourages recipients to be fiscally responsible. A result of this thinking has been that a prominent feature of its bilateral aid is its large proportion of loans. In fact, this proportion has been the largest by far among DAC members.

Further to this, since Japan’s loans have promoted economic development of recipient countries, they have now the ability to pay back what they owe Japan and have started to do so. Having been a leading ODA donor, even “No. 1” for many years, Japan’s outstanding loans are sizeable. So, repayments have been sizeable, too – some years almost equaling Japan’s total net ODA.

Since Japan receives repayments on loans provided to other countries in the past, it has to increase its allocations to ODA to keep it up. In 2005, DAC reported that “With loan repayments steadily increasing from developing countries and amounting to USD 2.9 billion in 2002, Japan may have to further increase the ODA budget to maintain current net ODA disbursement levels” (*DAC Peer Review of Japan 2003*,

p. 21). In the 2010 report: “The amount of Japanese ODA lending increased by 8.3 percent in 2008 but the rising levels of repayments from developing countries muted the impact of this growth in net ODA (Japan received nearly USD 7 billion in repayments, compared to giving USD 6.2 billion in new loans)” (*DAC Peer Review of Japan 2010*, p. 48). Even such a sizeable increase of Japanese ODA as 8.3 percent, as seen in 2008, almost disappears within the DAC statistics.

### Japan’s ODA Still Going Strong

The DAC reports that Japan’s ODA is in doldrums. For 13 years since 1998 many Japanese foreign ministers have seen it their duty to report about cuts in Japan’s ODA and duly reported this to the Japanese people. Most likely, it has been welcome news to tax-tired Japanese, who loathe government waste. But, looking at figures provided by the 2010 DAC Report, gives another picture. Japan’s average ODA for 1997–2001, for example, was US\$14,575 billion. An average that has remained relatively stable when viewed with annual figures of its Total Gross ODA: US\$14,407 (2004); US\$17,100 (2005); US\$16,730 (2006); US\$13,566 (2007); and US\$15,491 (2008) – (all figures in constant 2007 million). Rather than the sizeable cuts that the DAC and Japanese officials have reported every year, figures show ups and downs, but constantly on a high level. The amazing thing is that Japan’s government and its officials parrot the DAC reports of cuts having taken their toll and made Japan’s ODA not so impressive as it was in the 1990s. The fact is that Japan’s ODA is still going strong.

*Bert Edström is a Senior Research Fellow at the Institute for Security and Development Policy. The opinions expressed are those of the author and do not necessarily reflect the views of the Institute for Security and Development Policy or its sponsors.*

#### ABOUT ISDP

*The Institute for Security and Development Policy is a Stockholm-based independent and non-profit research and policy institute. The Institute is dedicated to expanding understanding of international affairs, particularly the interrelationship between the issue areas of conflict, security and development. The Institute’s primary areas of geographic focus are Asia and Europe’s neighborhood.*

WEBSITE: [WWW.ISDP.EU](http://WWW.ISDP.EU)