Aid to Africa:

New Opportunities and Challenges for Japan's ODA

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1. Africa and Japan's ODA Policy

- Current ODA policy, based on two pillars (new ODA Charter 2003)
  - Asia ("priority" region): ODA as a means to promote economic integration
  - The rest of the world: ODA to address global causes
- The 2003 ODA Charter newly introduced agenda, relevant to Africa
  - "Peace building" and "human security"
- But, Japan's vision for aid to Africa remains tenuous…; Why?

Africa and Japan's ODA Policy

- Historically, "reactive" aid policy to Africa (esp. until the 1980s) [handout#1]
- In the 1990s, increased global commitment as top donor—initiating the TICAD process (1993, 98, 2003)
- In the 2000s, mounting difficulties under the ODA budget cut (for six years since FY2000)
- Despite many challenges, the Year 2005 gives new opportunities for Japan's aid to Africa

2. Challenges

- Accountability to tax payers:
  - Why Africa (among many competing priorities)?
  - What are prospects for success?, How can growth be generated and sustained?
- Relevance of Japan's aid model in the African context? (—although it appears to have worked in East Asia)
  - Japan's current aid model is built on its experiences in East Asia [Ishikawa 2005]

(Contd.)

- Main features of this model include:

1. "Request-based" approach and respect for country ownership (→weak involvement in policy conditionality)
2. Projects as dominant aid modality (→where institutional and policy coherency is provided by recipient govt.) [handout#2]
3. Active use of loans to support productive sectors, esp. through infrastructure development (→loans are repaid as the recipient economy has grown)

Challenges

- Emergence of "new aid agenda": urging Japan to change its aid behavior
  - Active involvement in policy & institutions, as well as governance agenda
  - Participation in new aid modalities, alignment & harmonization
  - Emphasis on social sectors (esp. early PRSPs), etc.
- Institutional fragmentation of Japan's ODA, adding difficulty to coherent and country-focused approach
  - Policy: MOFA (overall), plus MOF and METI
  - Execution: MOFA (grants), JICA (TA), JBIC (loans), and other agencies

Challenges

- Impact of the Enhanced HIPC Initiative on the mix of Japan's ODA tools in Africa
  - Loan aid (JBIC) is suspended to those countries applying for the initiative, with grant aid (MOFA) & TA (JICA) becoming the only tools [handout#3]
  - Implications: reduced aid volume to Africa (esp. infrastructure), limiting the operational scope of JBIC which was principal cofinancier of SALs during the 1980-90s

3. New Opportunities

- Growing concern about aid effectiveness within Japan, prompted by ODA budget cut
- Progress in ODA reform (esp. 2002-)
  - Creation of the Board on Comprehensive ODA Strategy within MOFA (2002.6)
  - Stronger country focus: establishment of field-based ODA Task Force to facilitate in-country coordination (2003.3), CAS for Ghana and Ethiopia underway, etc.
- Global commitment to the Paris Declaration (2005.3)

New Opportunities

- Emerging institutional response to African agenda
  - JICA: reorganization & field delegation, increased TA budget for Africa, peace building & human security
  - JBIC: proposal for channeling ODA loans through AfDB (i.e., new window for PSD support)
  - Grant aid: peace building & human security (although further efforts for policy alignment & harmonization are necessary)

New Opportunities

- External pressure to reverse the declining trend of ODA budget
  - Based on global commitment to supporting MDGs
- Possible reallocation of the existing ODA budget from traditional Asian recipients to the other countries/regions (—thanks to their aid graduation)
  - Can Africa benefit from China “dividends”? [handout#3]

4. Towards Japan's Renewed Engagement in Africa

- Create a success model(s), focusing on selected countries ("demonstration effects")
- Flexibly mix bilateral & multilateral resources, and work with development partners (including Asian partners)
- Reassess which elements of Japan's aid model are relevant and which are not in Africa, and focus on its strengths
  (Examples)
  - Promoting productive sector and "real-sector" concerns
  - Reinterpreting ownership in the African context

Example: Ghana

- Japan faced drastic changes in the aid environment in Ghana
  - Suspension of ODA loans and the resultant, major reduction in aid volume [handout#4]
- New CAS (underway) attempts to:
  - Enhance policy predictability & alignment to GPRS
  - Focus on productive sectors by supporting rural & agricultural dvt., SME, and governance agenda
  - Scale-up the experiences gained through projects and contribute to the content of policy & institutional reforms

… building on the initiative by the field-based ODA Task Force, and on broad partnership