

ODA and Sustainability –A new movement in Japan-

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Abstract: In 2008, Japan made a big progress in ODA by creating New JICA (Japan International Cooperation Agency), which covers financing, grant aid and technical assistance. It became an organization with huge budget next to the World Bank. JICA therefore needs a more elaborate safeguard policy. There is a new movement of ODA towards sustainability in Japan. Although Japan has moved relatively slowly in this direction, the situation has been gradually changing thanks to more effective EIA application and experience with SEA. This decade's new challenge will be illustrated. Japanese EA has been changed greatly since the establishment of the national level EIA law in 1997. It also influenced the activities of international cooperation. The JBIC (Japan Bank for International Cooperation) started to create a guideline of Environment and Social Consideration in 2000 and put it in force in 2003. JICA followed this by revising the existing guideline from 2002 to 2004, and even the JETRO (Japan External Trade Organization) followed this from 2006 to 2008. This shows the change of Japanese policy towards the creation of a sustainable society. Currently new JICA is in the process of revising the guideline by help of experts and stakeholders

Key words: ODA, environmental and social consideration, JICA, EA guideline, SEA

1. Establishment of New JICA

Most IAIA people believe that Impact Assessment should be a major way to create a sustainable society. For this purpose, we need more active international cooperation, especially through official development assistance (ODA). The Japan International Cooperation Agency (JICA) is now the major body of ODA in Japan¹⁾. But until October 2008, the function was limited to the following three functions (Figure 1).

- 1) Development study: Assistance of planning process in developing countries for big projects
- 2) Preliminary study of grant aid project: Assisting the gift from the Ministry of Foreign Affairs, Japan
- 3) Technical cooperation project: Technology transfer to developing countries

The financing for ODA had been conducted by the Japan Bank for International Cooperation (JBIC) at that time. The combined activity of JICA and JBIC in big projects was functioning similarly to the World Bank. JICA had a role in the planning process of big projects, in which environmental and social consideration are highly required. JICA, therefore, had made "Environmental Guidelines for International Cooperation" (Figure 1).

projects starting from 1990, which introduced screening and scoping process to a preparatory study scheme. But, as the project cycle from planning to financing was not directly connected at that time, it had problems of good practice of environmental and social considerations.

Since October 2008, JICA expanded its activities to include financing by merger of the Yen Loan division of JBIC. It also became responsible for the major part of the grant aid supplied by the Ministry of Foreign Affairs (Figure 1). The function of JICA is now almost same as the World Bank. As the annual budget of JICA is huge, some 12 billion US dollars in 2009 which is comparable to the World Bank, it is required by the government to have more advanced safeguard policy. This is reflecting the recent trend of safeguard policy improvement and prevalence of the concept of sustainability in international cooperation in Japan.

The recent movement of environmental and social considerations was started from the end of the last century. In 1999, the former JBIC was established by merger of the Japan Export Import Bank (JEIB) and the Overseas Economic Cooperation Fund (OECF). And the Japanese Diet had requested JBIC to take enough consideration on

Figure 1. Expansion of the Role of JICA. By Inauguration of New JICA since October 2008: Responsibility for three assistance scheme on each stage of the project cycle

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Past**	Project Cycle	Former JICA	Former JICA	Former JICA
	Project Formation			
	Appraisal / Approval			Former JICA

environmental and social impacts caused by its financing as the government established EIA Act in 1997 and fully implemented it in 1999²⁾ for securing sustainability. JBIC made the guideline in 2002³⁾ and fully implemented it from October 2003. The movement towards sustainability also influenced JICA at that time. Even though JICA already had guidelines for its ODA activities since 1990s, it revised the guideline towards this direction in 2004. Then, this change for securing sustainability prevailed to other type of activities such as the Japan External Trade Organization (JETRO), which support overseas activities of Japanese private companies. JETRO established and put in force its guideline in 2008.

This paper reviews the recent movement of creating environmental and social consideration systems for ODA in Japan. As the author had been deeply committed these activities as the chairpersons in all of guideline making processes for JBIC, JICA and JETRO, he is on a position of watching the whole process.

2. Former JBIC Guideline, 2002

As mentioned above, JBIC was founded in 1999 by merger of JEIB and OECF. Both organizations had been supported by national government. At the inception, JBIC had two guidelines separately, one for international financing operations (for JEIB) and the other for ODA operations (for OECF). JBIC in principle had a plan to establish new and integrated environmental guidelines for its operations, as it was required by the Diet. But JBIC was not so active to do this at that point.

The request from the Diet might have been partially influenced by discussions in the international donor community. The Study Group on Export Credit at OECD had been discussing on the common approach for environmental considerations, which was for export credit institutions of the 28 developed countries. JBIC guideline was expected to be in line with the discussions and to demonstrate more responsible initiatives for environmental and social considerations.

Many big projects had been supported by Yen Loans through JBIC. It had become one of the biggest banks for international cooperation in the world since its foundation in 1999. The action of JBIC should have a great influence and need have pertinent safeguard policy.

The problem was that the attitudes of experts were quite different between those in international financing and in ODA financing. As the former was not so positive in general, it was not easy work.

Under such situation, the study group was organized to develop the guideline, but informally as some of the bank managers were supposed to be reluctant to do this. The study group made its recommendations to JBIC in September 2001⁴⁾. It had the following characteristics:

- 1) Key Concepts: Sustainable development, Ensuring human rights
- 2) Requesting proponents to take more environmental considerations
- 3) Environmental reviews: Information disclosure of the EIA documents: Requiring two time public consultations on scoping and draft EIA reports stages
- 4) Decision-making incorporated to loan contracts
- 5) Monitoring and follow-up
- 6) Establishment of an outside panel for ensuring compliance of the guideline
- 7) JBIC's support to the borrower and related parties

After receiving the report, JBIC drafted the guideline from October with assistance of the Follow-up Committee to the Study Group, whose members were the same as the former group. JBIC also held several public consultation forums in the process of drafting until the end of December. And public comments were invited to the final draft for two months. The draft was modified and the Follow-up Committee checked it. The guideline was established in April 2002 and put in force fully from October 2003⁵⁾. The guideline is shown on the web site⁶⁾.

Compliance of JBIC

The author evaluates that the guideline itself became on a certain level. The problem raised was how to ensure compliance of the guideline. If the guideline is not implemented well, it is of no use. In the case of ODA financing, claims could be received before the final decision of loan. But under the guideline, in the case of international finance operations for private companies, claims could be received after the decision of loan was

made. It should make a problem for compliance, and actually such cases had been reported in the past activities of JBIC⁷⁾.

Another problem was the inspection system. There were discussions on the neutrality of the body to check the compliance. Though the Study Group recommended having an outside system, the Bank refused to do this. JBIC made an additional guideline for compliance in April 2003. Two inspectors for this system had been hired within the Bank. The problem is what kind of experts was selected, and how the reviewing process could be conducted accountably. Though there have been no complains to the bank until 2009, some appeals were made for older projects financed by JBIC when the guideline 2002 was not applied yet.

It is a problem that the inspectors are part of JBIC. But if the inspectors were selected fairly and the review process was conducted accountably, it would work. As the system has not yet been applied, we cannot make a judgment at this moment. The lack of complains would indicate a good practice of the guideline so far.

The 2002 Guidelines of JBIC was the first step towards the challenge for sustainable development. It requires information disclosure and good practice of EIA through two public consultations. The result of EIA should be reflected on the decision-making of financing. The reason why it could address this would be the very transparent process of the creation had been realized by the efforts of JBIC.

3. Former JICA Guideline, 2004

As JICA had been assisting the upstream planning process of big projects in developing countries, JICA was required by the government to pursue sustainable development. Based on the concept, JICA revised its guidelines and implemented them from April 2004. The establishment of the 2002 JBIC guideline should have given a certain influence to this.

Actually, by the establishment of the JBIC guideline 2002, JICA was required to revise its existing guidelines as the planning assistance sometimes connected to Yen Loan provided by JBIC. In the planning

process of big projects, JICA had been assisting the upstream decision making such as master plans in developing countries. It was also necessary to revise the existing guideline with the policy of the government for restructuring the Ministry of Foreign Affairs. It was also necessary to respond to the growing sustainability awareness of Japanese people. Then, JICA had to make a generic guideline applied to all of the three types of assistance schemes. The revised guideline is advanced one with requiring three time public consultations and introducing SEA concept (JICA, 2004).

It was realized by a highly transparent process, as all major stakeholders participated in. A Study Group was organized to create new guideline for JICA in December 2002. The Study Group made the recommendations to JICA in September 2003. Representing the committee, the author handed it to new President Ms. Sadako Ogata, who has been well known as a lady of human rights, the former United Nations High Commissioner of Refugees, in October 2003⁸⁾.

Then, JICA started to draft the Guidelines from October 2003 assisted by the Follow-up Committee of the Study Group with same members as those of the Study Group and chaired by the author. The final draft was published for public comments for two months from December 2003. JICA also held several public consultation forums in Japan and visited the major JICA branches in developing countries to have informing sessions during this period. The draft was modified according to the comments from the public and the Follow-up Committee checked it. The guideline was established and implemented in April 2004⁹⁾.

The guideline had the following characteristics¹⁰⁾.

- 1) Key Concepts: Sustainable development, Ensuring human rights
- 2) Requesting project proponents and the governments of developing countries to make environmental and social considerations
- 3) Environmental reviews: Enough information disclosure of EIA documents, Requesting three time public consultations on the stages of scoping, draft EIA, and final EIA reports

- 4) Applying the concept of SEA in the EIA process
- 5) Monitoring and follow-up
- 6) Creation of new section within JICA in charge of environmental and social considerations
- 7) Establishment of a reviewing committee by external experts for ensuring neutrality
- 8) Establishment of an outside panel for ensuring compliance of the guideline

Reviewing EIA and Compliance

The guideline is of high quality. On some points, it is more advanced than the guideline of the World Bank. The major problems raised at that time were how to make good review of EIA and ensure compliance of the guideline.

In the case of ODA financing, claims can be received before the final decision is made. It is good to receive claims at an early stage to mitigate environmental and social impacts caused by a project. JICA has a better position than JBIC in this respect. It, therefore, is very important to conduct a good practice of reviewing EIA. Reviews were basically conducted by the JICA staff. But, it introduced a peer review process by experts outside of JICA to be advised and ensure fairness and transparency. It is very important how the reviewing process could be conducted accountably.

For the compliance of the guideline, an inspection system is necessary. There were discussions on the neutrality of the body for checking the compliance. Although the Study Group recommended an external compliance control system, this was not possible under the present law for JICA. Then, JICA made an inspection system under JICA after April 2004.

4. Aftermath and JETRO Guideline, 2008

By these setting in both JBIC and JICA, the safeguard policies of ODA of Japan were made, and the necessary systems were established in the former half of the first decade of the 21st century. This movement also influenced the activities of industries.

One direct impact was the establishment of the environmental and social consideration guideline for the Nippon Export and Investment Insurance (NEXI). It

created its own guideline following that of JBIC in 2002 and fully implemented it in October 2003. The framework and contents are almost same as those for international financing activity of JBIC.

Another recent case is the creation of the guideline for JETRO, one of the Independent Administrative Institutions. JETRO is the major body to support export and import of Japanese industries, which had been very important for the Japanese economy in the past. But the role of JETRO has been reduced by the economic growth of Japan and it was listed as one of possible institutions for abolishment by the national government. JETRO took a strategic approach to persuade the government by showing the benefit to Japanese society through having a sustainability policy.

JETRO started to create its guideline from the end of 2006 and made it in December 2007. The author was asked to chair the advisory committee to create the guideline. In this case, JETRO was very positive, which contrasted with the former JBIC several years before. The attitude of industries has been changing in a more sustainable way. The characteristic of JETRO guideline was to also include the Corporate Social Responsibility (CSR)¹¹⁾. As the major activities of JETRO are supporting export and import of companies, the activities of international cooperation are quite limited. But JETRO required itself to act more sustainably even for the activity of assisting industries. This might explain a change of the Japanese society. The guideline was implemented from January 2008, and JETRO was able to survive as a public institution at the same time.

5. Making the Guideline for New JICA, 2009

Japanese organizations of ODA were drastically changed by the establishment of New JICA in October 2008. JICA became the major body for ODA in Japan. Then, International financing was left under New JBIC. New JBIC does not conduct ODA anymore. As the function is similar to JEIB before 1999, the name of JBIC might be misleading now.

Under JICA, Japanese ODA activities could be done very efficiently by combining the three

development assistance schemes of Yen Loan, Grant Aid and Technical assistance as shown in Figure 1. But as the activities and the operations of New JICA became more complex than former JICA, it must revise the existing guideline as soon as possible. It should be a hard work.

Then, former JICA and former JBIC jointly created an Advisory Committee for revising the guideline for New JICA in February 2008. As it should need more than one year to finish the revising work, the start was too late. Actually the process is not finished yet. The author has been working as the chairman again in the committee and the process has been very transparent. The interim report was submitted to JICA in December 2008. JICA staffs are drafting new guideline still in March 2009.

It would be finished soon and it will be reviewed in the Advisory Committee. Then, the revised version of the draft guideline will go to the public comments process. After receiving the comments, JICA should respond them and also this will be reviewed in the Committee again. This kind of feedback process will be continued in the next months. It might sound a tiresome process. But through such intensive and very open process, we could expect a high quality of guideline for new JICA. By this, New JICA could make a positive contribution to the world.

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