

Economic Development

Economic Policy and Finance/Private Sector Development/Resources and Energy



Bread made of cassava developed in the Institutional and Human Resource Development Project for One Village One Product Programme (Malawi)

Overview of the Economic Development Field

JICA's cooperation in the field of economic development comprises three areas: economic policy and finance, private sector development, and resources and energy. From the perspective of reducing poverty through economic growth, assistance for these issues has been enhanced. From the perspective of human security as well, in addition to accommodating basic human needs (such as health and education sectors), it is necessary to provide assistance that helps people gain sufficient and stable incomes and leads to their economic self-reliance through capacity development of governments, community, and people, as well as expansion

of job opportunities in the economic development field.

In the economic development field, priority has thus far been placed mostly on Asia, especially East Asia and Southeast Asia. However, recently, in order to support poverty reduction in Africa, measures effective for facilitating sustainable economic growth and leading to improved households and lives among the poverty group have been called for. To this end, support that leads to the development of the private sector using markets, trading, and investment, as well as assistance for the enhancement of the private sector, are becoming more essential.

Economic Policy and Finance

Overview

The development of a fiscal and monetary infrastructure and the appropriate management of economic policies are vital to sustainable economic growth. If economic policies are not implemented and managed properly, fiscal and monetary collapse will bring about hyperinflation or deflation, causing a serious deterioration in people's assets and living standards. Strengthening and stabilizing fiscal and monetary systems and achieving macroeconomic stability and growth through the formulation and implementation of appropriate economic policies are required for successfully overcoming a wide range of development challenges.

The following two areas have become especially important in recent years in this context.

1) Preventing a recurrence of the Asian financial crisis

Until the Asian financial and economic crisis of 1997, the performance of the economies of ASEAN had been described as the "Asian miracle." The crisis robbed large numbers of people in these economies of both assets and jobs. The fragility of financial systems in ASEAN countries has been identified as one of the causes of the Asian financial and economic crisis. Financial systems need to be strengthened in order to prevent a recurrence of such a financial crisis in the future.

2) Fiscal management

In recent years, international organizations and donor countries have highlighted support for developing the fiscal management capacity of developing countries' governments. The fiscal management capacity of the government is extremely important for increasing revenues, strategically allocating resources to priority areas such as poverty reduction while maintaining fiscal order, and for spending fiscal funds effectively and efficiently.

JICA's Efforts

Technical cooperation in the area of economic policy and finance up to the 1980s tended to place more emphasis on the provision of know-how, such as the introduction of Japanese fiscal and monetary systems. However, two events in the 1990s changed the direction of JICA's cooperation in this area and prompted it to become full-scale.

The first of these was the transition of former socialist countries to market economies in the late 1980s and early 1990s. The shift to market economies required radical changes in economic policies, systems, and organizations. Support for this process became a key priority for Japan's ODA. The second factor was the Asian financial and economic crisis of 1997. Since the crisis, JICA has upgraded support for the reinforcement of financial systems through the improvement of institutions and the development of human resources.

In concrete terms, JICA provides the following cooperation.

- 1) **Reinforcement and stabilization of fiscal systems** (capacity improvements in the areas of fiscal management and debt management, and capacity building in the areas of taxation and customs)
- 2) **Reinforcement and stabilization of financial systems** (capacity building in the area of financial administration and supervision, the reinforcement of financial intermediation functions, capital market development, and improved financial systems for small and medium-sized enterprises [SMEs])
- 3) **Development of a macroeconomic management infrastructure** (the development of economic laws, assistance in the creation of macroeconomic models, and improvements in economic statistics)

Among the above, the number of projects in the area of fis-

cal systems, primarily taxation and customs, is the largest, accounting for approximately 50% of total projects, followed by projects in the area of financial systems at 30%.

Countries in East Asia and Southeast Asia account for 80%

Private Sector Development

Overview

Private sector development is an approach to cooperation that contributes to the economic advancement of developing countries through the vitality of the private sector. Supporting the private sector of developing countries has the potential to stimulate economic growth, accelerate poverty reduction, and improve living standards in developing countries. Unless economic activities in the private sector advance, employment opportunities and incomes will remain limited, as a result, poverty will persist.

Private sector development is also extremely important in terms of tax revenue. Unless tax revenues are secured, the government will not be able to sufficiently provide administrative services such as education, health, medical care, and welfare, due to budget constraints.

When private businesses are established and grow, employment opportunities for local people will expand, resulting in growth in household incomes. The development of various industries and growth in exports, imports, and investment will lead to the expansion of national economic activity. In order to respond to international competitive environment which becomes more severe in today's economic globalization, the competitiveness of local industry in developing countries needs to be improved, too.

JICA's private sector development provides support for economic capacity development of central and local governments in a developing country and assistance that brings about private vitality, aiming for economic growth that benefits not only the poverty group but also the entire society of a developing country.

JICA's Efforts

JICA's cooperation in private sector development is centered on East Asia and Southeast Asia, which has achieved outstanding economic development. In these regions, shift from the conventional economic structure led by the public sector to one centered on economic activities of the private sector has progressed as well as a horizontal relationship of economic dependency, such as World Trade Organization (WTO) and Economic Partnership Agreement (EPA), calling for a response to economic globalization.

This movement has been expanding from East Asia and Southeast Asia to Latin America, Middle East and Africa, and JICA's support has been extended accordingly. In relation to Africa, the importance of poverty reduction through economic growth was declared in the third Tokyo International Conference on African Development (TICAD III) in 2003, and the fourth Tokyo International Conference on African Development (TICAD IV) is scheduled for 2008, as an effort to enhance assistance for the region (see p.53-54).

In some developing countries there are riots and ethnic conflicts, and it has been pointed out that they stem primarily from social unrest such as loss of employment for young people. Many developing countries have problems in the sectors of health and

of the target regions of cooperation in the area of economic policy and finance. However, JICA will work to reinforce efforts in the African region, primarily in the area of fiscal management.

basic education; however, social and economic infrastructure won't be stabilized unless employment opportunities are created through the promotion of SMEs and support for entrepreneurship, inter-regional income disparities are corrected, and gender balance in employment are secured. In order to solve these socioeconomic issues and employment issues, which are attributed to social unrest, efforts for private sector development are becoming more important.

Trade and Investment

In order for a developing country to respond to economic globalization, it is necessary to activate trade and investment and consolidate economic partnerships with the world. JICA's cooperation in this area focuses on the following activities: building institutional framework such as development of a relevant legal framework, establishment of an institutional foundation as the basis of trade and investment promotion; organizational enhancement such as trade and investment promotion agencies; and capacity development of policy makers and staff members of the agencies.

In fiscal 2006, JICA implemented technical cooperation projects and studies targeting trade training centers and trade promotion agencies in Indonesia and Egypt. JICA also cooperated in the capacity enhancement of investment promotion agencies such as the Ministry of Investment Promotion in Central and Eastern Europe and ASEAN countries, by dispatching technical experts. Furthermore, in order to carry out trade and investment activities smoothly, building an environment for trade and investment is critical. As part of such environment-building, in terms of protecting intellectual properties, JICA supports enhancing systems and the capacity of agencies and personnel in charge of intellectual properties in China and ASEAN countries. JICA also cooperates in the capacity enhancement of agencies and personnel as well as institution-building in the course of creating standards and conformity assessment, which is a prerequisite for trade promotion (such as harmonization of standards and enhancement of inspection capability).

Thus, the cooperation in the trade and investment sector has been implemented mainly in Asian countries. However, JICA has currently started to promote South-South cooperation between Asia and Africa by utilizing experience in Asia for Africa.

Tourism

Tourism is an industry that a number of developing countries turn to as a means of acquiring foreign currency, increasing employment opportunities and incomes, and promoting regional development. Lately, it has been emphasized especially as a means to achieve the development goal of poverty reduction. Since it plays an important role in terms of not only economic impacts, but also the promotion of country-to-country and person-to-person mutual understanding, world-scale cultural develop-

ment and peace, harmony between development and environmental conservation, sustainable use of natural resources, movements toward working for more sustainable tourism development are accelerating.

Under such circumstances, needs for tourism cooperation are increasing in developing countries, and JICA is implementing assistance to strengthen various institutional frameworks to support tourism. First, it aims to bring about economic effects by developing tourism as an industry, including assistance related to the formulation and implementation of tourism policies. Second, it utilizes efforts for tourism development and its outcomes as a means to achieve the goal of other development issues, represented by ecotourism in an environmental conservation project. Third, it implements a project to utilize tourism as a means of regional and community development and regional promotion.

SME Development and Promotion of Industrial Technology

The governments of many developing countries have not developed policies and systems to foster the private sector, especially SMEs. The lack of technical skills in the production field and management know-how on a business-level has impeded the birth and growth of businesses. To overcome these obstacles, formulation of SME development policies and capacity development of persons in the public sector who implement the policies appropriately are essential. In a region like sub-Saharan Africa, where there is no industry, regional community development targeting micro enterprises and small producers' groups, represented by the "Isson Ippin Undo" (the One Village One Product Movement) or the "Michino Eki" (Road Station) is implemented. These supports for entrepreneurship create local jobs, promote support for women

entrepreneurs, and contribute to the correction of regional income disparities (see p.20-21).

At the same time, promotion of industrial technology through expanding business opportunities and improving competition through technological innovation is an important task for developing countries. Many developing countries work on the promotion of various industrial technologies and have established official test facilities and laboratories for basic technologies. JICA supports development of human resources who work at those institutions. In the more developed countries, cooperation for relatively high level technical research targeting national research institutes is increasing. Through such cooperation, JICA supports building systems that can respond to local technical needs.

Fostering Supporting Industries

In the areas where comprehensive industries such as automobile and electric appliance manufacturing have started operations with a certain basic industry foundation and the introduction of foreign capital, it is vital to foster SMEs, or supporting industries, which supply components and parts to these businesses. Support for the increased technical power of SMEs is very important as cooperation for more developed countries.

JICA actively supports development of such supporting industries. Such support expands overseas direct investment to developing countries and stimulates their business activities. At the same time, procurement in developing countries will increase, indirectly promoting overseas business opportunities. If this positive cycle continues, it is expected that supporting industries will further expand and employment opportunities will increase in developing countries.

Tourism Development Project through Strengthening Public-Private Partnership in Ghana — CASE STUDY

Ghana's official language is English. It acts as a trigger for an increase in foreign tourists and tourism revenues, which in turn greatly contributes to economic growth. Accordingly, employment in the tourism-related sector is rapidly increasing and it is also expected to become a means of vitalizing local communities. However, with regards to the goal set by the government of Ghana of receiving one million tourists a year by 2007, the number of tourists in fiscal 2005 was 0.5 million, which means the achievement rate remained 50%. Possible reasons for this include: (1) tourism resources are not considered products; (2) two World Heritage Sites are not fully utilized; and (3) the same kinds of souvenirs are sold everywhere you go, which is less appealing. Tourism promotion from the standpoint of tourists is required.

To provide tourism services that appeal to tourists, public-private partnership is essential; while the private sector offers ideas, the government, including the Ministry of Tourism, builds a system so that the ideas can be put into action easily, or supports them with promotional campaigns. However, the scale of the private sector in Ghana is still small and weak, and the government's policies in support of the private sector are insufficient to produce products that appeal to tourists.

In 2006, JICA thus started the Tourism Development Project through Strengthening Public-Private Partnership with an enhanced partnership between the public and private sectors, which used to be at a distance, utilizing Japan's experience in public-private partnership for tourism development. It is a new effort of JICA to support tourism development in a developing country by highlighting public-private partnership. The people involved have great expectations for the project, believing that when the public and the private sectors work together to successfully implement advertising and marketing, it is highly possible to achieve the goal set by the government.



Public-Private Partnership Forum aiming for tourism industry promotion

Automotive Human Resource Development Project for Supporting Industries

Human Development That Will Lead the Future of the Automotive Industry

The automotive industry in Thailand is one of the country's key industries in much the same manner as it is in Japan, and it is leading the ASEAN countries. Automobile production is soaring partly owing to contributions from Japanese companies, and annual production exceeded one million units at the end of 2005 for the first time in ASEAN countries. However, with regard to the local parts industry that supports this automotive industry, the environment for cultivation of engineers has not been sufficiently established yet, and in order for Thailand to continue economic development, human resources development has become



Thai engineers taking part in a processing test

an important issue.

Support with public-private partnership

This project forms part of Japan's cooperation fields in the Japan-Thailand Economic Partnership Agreement (JTEPA). In December 2005, Thailand's Ministry of Industry, the Industry Association, the Japan External Trade Organization, and the Japanese Chamber of Commerce in Bangkok signed a memorandum for cooperation. The project started in early 2006 and JICA has also participated in the project for the purpose of establishing a human resources development system in the automotive industry in Thailand.

The automotive industry is a comprehensive manufacturing industry in which Japan has expertise. Now, cooperation is ongoing, utilizing the good relationship that the governmental agencies of both countries have built through technical cooperation in the past, as well as the technology developed in Japan. The project is supporting the Thai government and private companies under

the public-private partnership in which the Japanese government, implementation agencies (JICA, JETRO, the Association for Overseas Technical Scholarship), and Japanese companies all work together.

Contributing to development of Japan-Thailand relationship as well

For small and medium parts manufacturers to respond to the high technical level required by the automotive industry, the capacity enhancement of engineers is vital. In this project, utilizing the know-how and experiences long accumulated by Japanese manufacturers, mechanism-building to realize a sustainable and high-level training system for Thai people is underway, and improving the skills of human resources in the industry is comprehensively supported; for example, by establishing a technical certification and qualification system to evaluate the technical levels of the developed human resources.

The project is expected to grow and empower the supporting industries in Thailand and further promote bilateral economic relations.

(JICA Thailand Office)

Resources and Energy

Overview

The world's energy demand keeps increasing. Energy demand in developing countries, primarily in Asia, is also on the rise due to population growth and progress in industrialization. Lately, against the backdrop of skyrocketing energy prices centered on crude oil and global-scale environmental issues such as climate change accompanied by global warming, energy problems have become important in the international community, and thus need to be examined from a more comprehensive perspective such as energy security.

Electric power, in particular, which is a modern form of energy, is vital for improving people's livelihoods, including economic growth and medical and educational services in developing countries, and plays a role in supporting sustainable socio-economic development and promoting poverty reduction.

These days, as electric power deregulation has been progressing on a worldwide scale, many developing countries have pushed forward power sector reforms such as (1) the breakup and privatization of government-owned electric power companies, (2) the opening of electrical power pool markets, and (3) the promotion of private investment to make up for a shortage of public funds such as independent power producers (IPP). Now that the

role of the government in the electric power sector has changed, in order to realize a reliable supply of low-cost power service, introduction of public-private partnership (PPP) has become an important issue.

Under these circumstances, priority issues in the power field can be summarized into four areas: (1) development of laws, regulations, and systems for steady implementation of power sector reform, (2) formulation of appropriate power development plans, (3) development of technical standards and improvement in facility operation, and (4) cultivation of human resources who will lead the power sector.

As far as rural electrification is concerned, the development of isolated mini-grids utilizing renewable energy, such as small hydropower and solar power, is often more economical in areas of developing countries that lack electric power services than is the extension of power transmission lines and distribution networks. In recent years, interest in renewable energy resources that contribute to the reduction of carbon dioxide emissions is growing and increased use of these resources is desired from the viewpoint of global environment issues or diversification and retention of energy resources.

Energy resources such as petroleum and coal and mineral

resources are important sources of foreign currency acquisition and a resource for economic development in developing countries, and the sustainable development and management of those resources is thus gaining importance.

JICA's Efforts

Electric Power and Energy

There are two priority issues to be addressed in the electric power and energy sector: (1) securing a stable power supply to achieve sustainable economic development and (2) promotion of rural electrification from the perspective of human security.

Technical cooperation in the sector of electric power and energy until the 1990s was primarily feasibility studies for the construction of electricity infrastructure in developing countries and support for training of personnel to maintain and manage electric power facilities. Keeping in mind partnerships with development financial institutions such as Japan Bank for International Cooperation (JBIC), World Bank, Asian Development Bank (ADB), and African Development Bank (ADB), JICA will implement assistance related to the development of and electricity infrastructure.

Amid the global trend of power sector reform, the role of governments of developing countries is being shifted from direct implementation of electric power projects to policy formulation to secure stable power supply led by the private sector. Accordingly, since the 1990s, JICA has actively addressed capacity development in the electric power and energy sector. Specifically, such efforts include: (1) support for policy making such as power development planning that enables long-term stable power supply (Philippines, Indonesia, Viet Nam); (2) support for institutional arrangement on establishing power technical standards (Cambodia, Laos, Viet Nam); (3) support for improving business management of power suppliers (Bangladesh); and (4) support for training power engineers in the field (Cambodia, Viet Nam, Jordan).

When providing cooperation for rural electrification, it is important to introduce the perspective of human security and keep in mind local residents in the unelectrified area, who are the ben-



On-site training for maintenance and management of photovoltaic devices (The Project for Sustainability Improvement of Renewable Energy Development in Village Electrification, the Philippines)

eficiaries. The perspective of capacity development that enhances the capacity of government organizations of developing countries is also important. In countries such as Malawi, Zambia, and Ghana, through electrification of rural growth centers, health and education services are being improved and the revitalization of local industries is being promoted, thus contributing to poverty reduction. Rural electrification plays an extremely important role in terms of promoting reduction of disparities between urban and rural areas. The need for cooperation is high.

Corresponding to various energy problems such as energy security and global environmental problems, which have attracted attention recently, JICA has begun assistance to formulate a comprehensive energy plan as a foundation of policy, in Viet Nam and the Philippines.

According to the JICA Guidelines for Environmental and Social Considerations, JICA will continue to appropriately formulate and implement projects, and at the same time strengthen region- and country-specific approaches as well as program approaches in implementing cooperation in collaboration with other donors.

Resources and Energy Conservation

Cooperation in the areas of resources and energy conservation, which comprises mining development, renewable energy

The Study on National Energy Master Plan in Viet Nam

Viet Nam has pushed forward a transition to a market economy based on the Doi Moi Policy (reform path for economic liberalization while keeping the socialism system). As a result, the economy is riding a wave of rapid growth, and energy consumption tends to increase by about 7% annually. Energy demand has so far been met by domestically generated energy such as coal, oil, natural gas, and hydropower; however, it is necessary to optimize the energy supply-demand structure from a comprehensive standpoint in order to meet the increasing energy demand and promote well-balanced development for the future.



First workshop in the study

Under these situations, Viet Nam is preparing to formulate the nation's first National Energy Plan, which includes (1) efficient development of domestically generated energy, (2) high quality and low cost

CASE STUDY

energy supply, (3) ensuring energy security, (4) creation of an energy market, (5) promotion of private sector investment in energy development, (6) utilization of renewable energies, (7) strategic considerations for ecosocialism, etc.

The purpose of this study is to support the formulation of the National Energy Master Plan of Viet Nam by 2025. This Master Plan aims for optimum utilization of domestically generated primary energy and stable supply of energy in Viet Nam, such as stable supply of energy, energy security, diversification of energy supply, export and import of energy, energy saving, and environmental considerations.

JICA is establishing tools that will form the base of the plan, such as database, demand prediction model, demand and supply optimization model, analyzing future pictures and policy options from various aspects, support for drawing up a road map and action plan to solve major issues, and strengthening the planning and formulation capacity of counterparts in the Ministry of Trade and Industry and the Institute of Energy.

(including new energies such as solar and geothermal energies), and energy conservation, is centered on the following activities.

1) Mining and Resources Recycling

In order to support sustainable development of mineral and energy resources in developing countries, support for institution building, human resources development, and technical improvement is being provided. For example, a study for the development of information and improvement in legal systems for the promotion of investment in the mining sector has been conducted in Laos, Zambia, and Serbia. In the area of energy resources, a development study of pollution control in the petroleum industry in the Caspian Sea is implemented in Kazakhstan. In Asian countries that continue economic development, the amount of resource consumption is rapidly increasing. In response, JICA has started cooperation to promote the establishment of a resource-saving recycling-oriented society by promoting 3R (reduce, reuse and recycle).

2) Renewable Energy

In this area, various types of cooperation have been implemented in view of promoting the use of renewable energy for the conservation of the global environment, as an independent electricity source for the electrification of isolated rural areas. Recently implemented projects include development studies to formulate local electrification master plans using solar energy and small hydropower generation systems in Peru, as well as a development study for geothermal development in Indonesia.

3) Energy Conservation

In the area of energy conservation, JICA has so far implemented cooperation making full use of Japan's knowledge and experience in a great number of countries through development studies, technical cooperation projects, and training programs. JICA is currently providing projects to disseminate and promote energy conservation in Poland.

Front Line Serbia

The Study on Master Plan for Promotion of Mining Industry

Aim for Sustainable Economic Development and Environmental Conservation

Serbia, a country located in the center of the Balkan Peninsula, is rich in various metal deposits. During the socialist era in Yugoslavia, mining production was so active that the country was a principal base metal-producing (non-ferrous metals that are used in high volumes, like copper and zinc) country in Europe. However, mining production dropped substantially owing to the civil war that broke out in the 1990s in the former Yugoslavia and the effects of economic restrictions that it brought about.

Nevertheless, even with today's severe economic situations, the export value of mining (especially non-ferrous metals) commands 17% of the export value of all industries in Serbia (2004) and mining is still the main industry in the country. Therefore, the government looks at reconstruction and promotion of the mining industry as an effective means of acquisition of foreign currency, and positions it as an important foundation for economic reconstruction.

First development study in Serbia

Based on such a situation, JICA is implementing the Study on Master Plan for Promotion of Mining Industry for the purpose of recommending a road map

for sustainable promotion of the mining industry.

Priority areas of cooperation for Serbia are economic development and environmental conservation. This development study is a highly significant cooperation in that it covers these two fields.

The Master Plan will include four major items: reconstruction policy for the mining sector, strategy of modernization and management of mining facilities, strategy of investment in mining sector, and environmental protection and countermeasures for pollution caused by mining activities. The first three items lead to economic development and the last one leads to environmental conservation. The knowledge and experiences of Japan, which used to have many mines, can be fully utilized in this cooperation.

Leading to actual attraction of investment

Many people in the government of Serbia involved in this study have experiences in participating in JICA's training programs in Japan. They not only have knowledge about mining in Japan but also fully under-

stand how the Japanese people work and think, thus contributing to smooth implementation of the study based on a deep and trusting relationship from the beginning of the study.

In parallel with the study, information is provided internationally using brochures and booklets. At the final stage, activities leading to actual investment are being planned such as holding international seminars in London and Canada, and presenting the outcomes at an investment promotion seminar in Japan.

After the end of the study, Serbia is expected to promote exploration and development on its own based on the formulated Master Plan.

(JICA Balkan Office)



Study activities at the government-owned copper mine, RTB Bor mine, in Serbia