Disclosure Statement
Operating Principles for Impact Management

Japan International Cooperation Agency (JICA)
20 August, 2020

Japan International Cooperation Agency (JICA) is a signatory to the Operating Principles for Impact Management (the Principles) since 26 August, 2019.

This Disclosure Statement affirms that JICA's policies and practices are aligned with the Principles. This affirmation applies to JICA's Private Sector Investment Finance. Total assets under management in alignment with the Principles is US$1,203 million as of 31 March, 2020.

S. Kitaoka

Shinichi Kitaoka
President, JICA
20 August, 2020

PRINCIPLE 1:

Define strategic impact objective(s), consistent with the investment strategy.

The Manager shall define strategic impact objectives[1] for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The impact intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio.

- JICA is an Incorporated Administrative Agency of the Government of Japan and one of the largest bilateral agencies for international cooperation.
- JICA's operations are governed by "Act of the Incorporated Administrative Agency-Japan International Cooperation Agency" (Act No. 136 of December 6, 2002, hereinafter referred to as "JICA Act").
- Regarding the operation of JICA's Private Sector Investment Finance (hereinafter referred to as "PSIF"), by Article 13 (1) (ii) (b) of the JICA Act, JICA only provides its finance for the Development Projects, which is defined in the JICA Act as "the projects which contribute to the Developing Area[2]'s economic and social development conducted by it".
- In addition, the JICA's Position Paper on SDGs dated September 8, 2016 is publicly disclosed, which set three pillars of JICA's cooperation toward achieving the SDGs and one of the pillars mentions that JICA will play a key role in achieving 10 goals* of the 17 SDGs making use of Japan's own experience in socio economic development of Japan and in development cooperation for the international community
  10 goals: zero hunger, health, education, water/sanitation, energy, economic growth, industry/infrastructure, sustainable cities, climate actions, forest s/biodiversity
- Therefore, JICA invests in the Development Projects, which contribute to achieving SDGs.

[1] Impact objectives can be defined as the intended impact that contributes to financial, institutional, social, environmental, or other benefits to a society, community, or group of people via one or more investment. Adapted from OECD-DAC (www.oecd.org/dac/).

[2] The Act defines as "overseas regions which are in the developing stage".

PRINCIPLE 2:
Manage strategic impact on a portfolio basis.
The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.

- According to Article 14 (3) of the JICA Act, JICA performs the operations of PSIF "only when the project plan for Development Projects" is "appropriate, and there is a prospect of their accomplishment," which result in achieving impact as well as financial performance.
- JICA ensures impact achievement and financial performance on a portfolio basis as well as individual investment of PSIF, through monitoring process of reporting, field inspection and participation in board of directors (in case of equity investment).
- Furthermore, the Risk Management Committee for Finance and Investment Account and Board of Directors of JICA periodically monitors the portfolio of PSIF from the viewpoints of financial aspects and developmental impact.
- Thus, JICA manages impact of operations of PSIF on a portfolio basis.

PRINCIPLE 3:
Establish the Manager’s contribution to the achievement of impact.
The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels.[3] The narrative should be stated in clear terms and supported, as much as possible, by evidence.

- The JICA Act, by its Article 14 (2), requires that JICA perform the PSIF “only when the lending of funds or investment by ordinary financial institutions on ordinary terms is deemed difficult”, as well as Article 14 (3) that JICA may perform the operations of PSIF "only when the project plan for Development Projects" is "appropriate, and there is a prospect of their accomplishment."

[3] For example, this may include: improving the cost of capital, active shareholder engagement, specific financial structuring, offering innovative financing instruments, assisting with further resource mobilization, creating long-term trusted partnerships, providing technical/market advice or capacity building to the investee, and/or helping the investee to meet higher operational standards.

- In addition, JICA establishes the Project Evaluation system, in which for every investment of PSIF JICA conducts ex-ante evaluation in accordance with JICA Guideline for Project Evaluation, which defines effectiveness and impact of the investment of PSIF, and the result of ex-ante evaluation is publicly disclosed in accordance with confidentiality requirements.
- Thus, for every investment, JICA has to seek its contribution to the achievement of impact and clearly describe its contribution.

PRINCIPLE 4:

Assess the expected impact of each investment, based on a systematic approach.

For each investment the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact[4] potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: (1) What is the intended impact? (2) Who experiences the intended impact? (3) How significant is the intended impact?[5] The Manager shall also seek to assess the likelihood of achieving the investment's expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations. In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards[6] and follow best practice.[7]

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[4] Impact is considered the material effect/s on people and the environment resulting from the investment, as outlined in Principle 1. Impacts assessed under Principle 4 may also include positive ESG effects derived from the investment.
[5] Adapted from the Impact Management Project (www.impactmanagementproject.com).
[6] Industry indicator standards include HIPSO (https://indicators.ifipartnership.org/about/); IRIS (iris.thegiin.org); GIIRS (http://b-analytics.net/giirs-funds); GRI (www.globalreporting.org/Pages/default.aspx); and SASB (www.sasb.org), among others.
[7] International best practice indicators include SMART (Specific, Measurable, Attainable, Relevant, and Timely), and SPICED (Subjective, Participatory, Interpreted & communicable, Cross-checked, Empowering, and Diverse & disaggregated), among others.

- In addition, JICA conducts ex-ante evaluations prior to the project implementation to confirm needs and priorities of the projects and measure the expected outcomes from perspective of the Five DAC Criteria[8] in accordance with JICA Guideline for Project Evaluation
- Therefore, JICA, when performing operations of PSIF, assesses the expected impact and beneficiaries of each investment quantitatively and qualitatively, based on JICA's Project Evaluation system.

PRINCIPLE 5:

Assess, address, monitor, and manage potential negative impacts of each investment.

For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG)[9] risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice.[10] As part of portfolio management, the Manager shall monitor investees' ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.

- JICA establishes Environmental Policy and system of environmental and social considerations, which require assessment, monitoring and management of potential negative impacts at the level of international standard, and, according to JICA's guidelines for environmental and social consideration, for each investment, it seeks to support and examine appropriate environmental and social considerations undertaken by project proponents etc to avoid, minimize, mitigate, or compensate for potential environmental and social risks of PSIF operations, prior to approval of the investment and during operations.
- Also, JICA establishes its internal policy of integrity check and conducts integrity due diligence of PSIF investees for each investment to avoid and mitigate governance and

[8] Relevance, Effectiveness, Impact, Efficiency and Sustainability

[9] The application of good ESG management will potentially have positive impacts that may or may not be the principal targeted impacts of the Manager. Positive impacts resulting from ESG matters shall be measured and managed alongside with, or directly embedded in, the impact management system referenced in Principles 4 and 6.

[10] Examples of good international industry practice include: IFC's Performance Standards (www.ifc.org/performancestandards); IFC's Corporate Governance Methodology (www.ifc.org/cgmethodology), the United Nations Guiding Principles for Business and Human Rights (www.unglobalcompact.org/library/2); and the OECD Guidelines for Multinational Enterprises (http://mneguidelines.oecd.org/themes/human-rights.htm).

integrity risks, prior to approval of the investment.

- After JICA monitors compliance of ESG risks by the investee and when it is confirmed that ESG risks might appear in monitoring phase, the division will takes necessary measures.
- Thus, JICA assesses and monitors ESG risks and its compliance by the investee for every investment of PSIF.

PRINCIPLE 6:

Monitor the progress of each investment in achieving impact against expectations and respond appropriately.

The Manager shall use the results framework (referenced in Principle 4) to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action.[11] The Manager shall also seek to use the results framework to capture investment outcomes.[12]

- JICA ensures impact achievement and financial performance on a portfolio basis as well as individual investment of PSIF, through monitoring process of reporting, field inspection and participation in board of directors (in case of equity investment), in order to monitor the progress of the expected impact determined in ex-ante evaluation and, in case of necessity, to take necessary actions to achieve the impact.
- Therefore, JICA has monitoring process to confirm the progress of expected impact to be achieved in every investment.

[11] Actions could include active engagement with the investee; early divestment; adjusting indicators/expectations due to significant, unforeseen, and changing circumstances; or other appropriate measures to improve the portfolio's expected impact performance.

[12] Outcomes are the short-term and medium-term effects of an investment's outputs, while the outputs are the products, capital goods, and services resulting from the investment. Adopted from OECD-DAC (www.oecd.org/dac/).

PRINCIPLE 7:

Conduct exits considering the effect on sustained impact.

When conducting an exit,[13] the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact.

- Article 13 (1) (ii) (b) of the JICA Act, JICA performs operations of "the making of the capital contributions to such persons when there is a special necessity in order to effectuate Development Projects", which is equity investment, and JICA's Statement of Operational Procedures requires exit policy of equity investment prior to its approval, based on consent of the investee.
- One of the trigger to decide exit of JICA's equity investment in the exit policy is that the investee or Development Projects achieves sustainability from the viewpoint of financial and developmental impact expected in the ex-ante evaluation.
- Thus, JICA exits form its equity investment in accordance with the exit policy set with the investee when sustainability of the investment is achieved.

PRINCIPLE 8:

Review, document, and improve decisions and processes based on the achievement of impact and lessons learned.

The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.

- JICA conducts ex-post evaluations to evaluate completed projects comprehensively in accordance with JICA Guideline for Project Evaluation and examine whether the project's effectiveness, impact and sustainability will continue after project completion. Lessons learned from the evaluation results help in improving subsequent projects, formulating new projects and considering fundamental cooperation strategies.
- Thus, JICA continuously improves decisions and processes based on the result of ex-post evaluation and utilization of lessons learned from previous investments of PSIF.

[13] This may include debt, equity, or bond sales, and excludes self-liquidating or maturing instruments.

PRINCIPLE 9:

Publicly disclose alignment with the Principles and provide regular independent verification[14] of the alignment.

The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns.

- JICA receives audits from three auditors, who are appointed by the Minister of Foreign Affairs. Auditors certify that the business operations as a whole, including PSIF, are properly conducted in compliance with laws and regulations and efficiently and effectively conducted in order to achieve objectives as stipulated in the JICA Act.
- The independent verification statement on the alignment with the Operating Principles for Impact Management will be available by 30 September 2020.

[14] The independent verification may be conducted in different ways, i.e., as part of a financial audit, by an independent internal impact assessment committee, or through a portfolio/fund performance evaluation. The frequency and complexity of the verification process should consider its cost, relative to the size of the fund or institution concerned, and appropriate confidentiality