

Japan International cooperation Agency – Japan's ODA ambassador

Japan International Cooperation Agency or JICA as it is best known, is the World's largest bilateral aid agency and carries out most of Japan's Official Development Assistance (ODA). JICA is not at all well known to international investors, as it does not yet lend in foreign currencies and has never issued bonds outside Japan. But that might change in coming years, if the government relaxes the rules, as is under discussion. In anticipation, JICA is beginning to gradually familiarise foreign investors with its credit and its mission.

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JICA is a household name at home in Japan and extremely well known overseas, especially in the emerging economies. JICA is Japan's principal ODA face to the emerging economies of the world, and has more than 80% of its vast assets in Asia.

JICA is huge. Since its 'rebirth' JICA has become one of the largest bilateral development organizations in the world with a network of more than 90 overseas offices, projects in more than 150 countries. It has the equivalent of more than \$140 billion in assets and has an annual budget of over ¥1.1 trillion, or roughly \$14bn.

And JICA is also extremely strong financially, with capital and reserves totalling more than 76% of its total assets. JICA is rated at the sovereign ceiling, in other words AA+ by R&I (Rating and Investment Information, Inc.) and AA- by S&P (Standard and Poors).

Currently JICA offers loans in yen. Consequently, JICA has since October 2008 become a regular issuer of JICA Agency bonds to domestic institutional and even retail investors. The agency has thus far issued entirely without the state guarantee, due to its immense

financial strength.

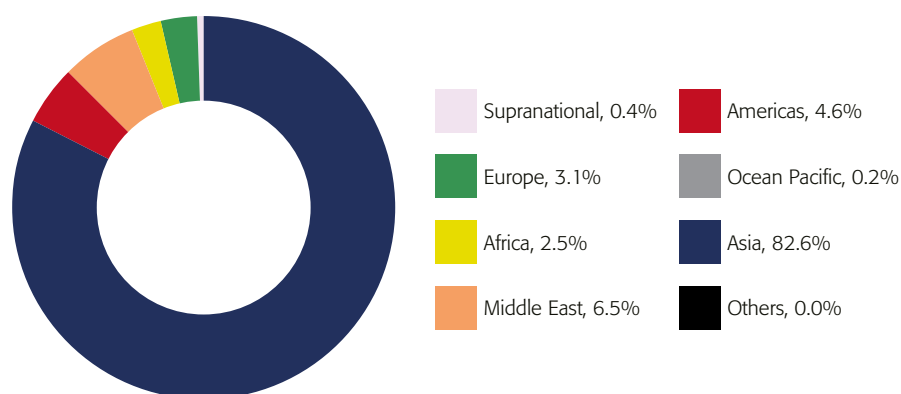
JICA does not yet offer direct foreign currency loans and does not borrow offshore. But based on the recommendation by the Japanese Foreign Ministry on ODA Reforms to develop foreign currency oriented products, both areas are under consideration by the government including the Ministry of Foreign Affairs, and the Ministry of Finance.

"We, as a bridge between the people of Japan and developing countries, will advance international cooperation through the sharing of knowledge and experience and will work to build a more peaceful and prosperous world." That is from the JICA website, a clear statement of intent to the Japanese public, and to the world at large that is further embellished by the statement of JICA's four key missions.

Mission 1 - Addressing the global agenda

The advance of globalization brings positive effects, sparking economic development and providing people with new opportunities. It also has its negative side, though, including such effects as uneven wealth distribution and the cross-border issues of climate change, infectious diseases, terrorism, and expanding economic crises. These effects pose a threat to the stability and prosperity of Japan—which depends on resources from around the world—and the rest of the international community. The threat is particularly dire for developing countries. New JICA will make full use of

Overview of JICA – Exposure to Asia over 80%



Source: JICA

Japan's experience and technologies as it works in concert with international society to address the various globalization-related issues developing countries face in a comprehensive manner.

Mission 2 - Reducing poverty through equitable growth

Impoverished people in developing countries are particularly susceptible to the effects of economic crisis, conflict, and disaster and are constantly exposed to the risk of even deeper poverty. Moreover, growing wealth gaps are a destabilizing factor in societies. Helping people to escape poverty and lead healthy, civilized lives is a vital task not only for the growth of developing countries but also for the stability of the international community. To reduce poverty, employment opportunities must be expanded through equitable growth that gives proper consideration to impoverished members of society, and public services like education and healthcare must be enhanced. New JICA will provide sup-

port for human resources development, capacity building, policy and institutional improvements, and provision of social and economic infrastructure, thereby pursuing sustained poverty reduction through equitable growth.

Mission 3 - Improving governance

A state's capacity for governance refers to its status as a society that can take the resources available to it and direct, apportion, and manage them efficiently and in ways that reflect the will of the people. Improving governance is of vital importance to the stable economic growth of developing countries. However, these states often have underdeveloped legal and judicial systems and administrative organs, which present obstacles to efforts to reduce poverty through economic growth. New JICA will offer support aimed at improving the fundamental systems needed by a state, as well as systems for effectively providing public services based on the needs of people, and at fostering the

institutions and human resources needed to manage those systems appropriately.

Mission 4 - Achieving human security

The advance of globalization causes an increase in various cross-border dangers and exposes many people in developing countries to civil strife, disasters, poverty, and other humanitarian threats. The concept of human security places individual human beings at its core, seeking to defend them from fear and want: fear of things like conflict, terrorism, disaster, environmental destruction, and infectious disease, and want in the face of poverty and in social services and infrastructure. By building up people's abilities to address these issues themselves, this approach aims to build societies in which they can live with dignity. In order to defend the weakest members of society from these various threats, New JICA will support efforts to bolster social and institutional capacity and to increase people's ability to deal with threats themselves. ▀

A highly experienced view from the top

EuroWeek in late February visited JICA to discuss the agency and its future with Kiyoshi Kodera, Vice President. He was brought in to JICA in April 2010 and brings with him a strong and engaging personality as well as the accumulated experience of having worked since 1982 for the Japanese government and for the International Monetary Fund (IMF) and other leading institutions. He is forthright in his views on the vital importance of JICA to Japan's economy and to the developing world. He is optimistic about the increasing prominence of JICA to domestic debt capital market investors and realistic about the possibility of JICA interfacing in years to come with foreign investors.

JICA emerged as a new entity in October 2008, reborn out of mergers to create Japan's sole international aid institution for the emerging economies. Has your 'rebirth' been a success so far?

Kodera: Absolutely, we have as the single ODA entity consolidated our position in many countries and expanded our reach into more emerging economies. To give you a few basic snapshots, we now have more than \$140 billion of loans out to emerging markets, we have more than 90 country offices and we are continually expanding our sophistication in how we approach, advise on and ultimately finance a growing range of projects, especially in the infrastructure space, which requires a vast amount of funding throughout the developing world.

Can you give a guide as to the size and scale of JICA?

Kodera: We have more loan assets globally than the Asian Development Bank, as more than 80% of our assets are

within Asia. We make the equivalent of more than \$10 billion of new loan commitments each year and we spend more than \$2 billion on technical assistance each year.

And you have immensely high levels of capital, can you elucidate?

Kodera: We have the equivalent of more than \$95 billion of capital, which makes JICA enormously strong financially. In exact numbers in Yen, set against total assets of ¥11.2 trillion, JICA has more than 76% of capital made up of ¥7.6 trillion of pure capital injected by the government, and reserves of ¥1 trillion.

Moreover, the ¥2.5 trillion of borrowings of JICA from the government's FILP programme [loans from the state provided to JICA at long maturities and at a price flat to Japan Government Bonds] are not backed by general JICA collateral. Only ¥140 billion of our JICA Agency bonds are backed by general JICA collateral and are therefore



Kiyoshi Kodera, JICA's Vice President since 2010: brings with him a wealth of experience

ranked at the highest level of senior liability.

Will the government reduce its existing capital contribution to JICA?

Kodera: This is unlikely as JICA has a powerful mission and the full backing of the government. JICA is the sole ODA institution for Japan and is crucial to Japan's global efforts to improve economic conditions in the emerging economies.

We have five core pillars, namely to help low income economies particularly in Sub-Sahara Africa achieve the Millennium Development Goals, to help countries in post conflict (such as Iraq, Afghanistan and South Sudan), to



JICA: World's largest bilateral aid agency is Japan's ODA financing powerhouse in the emerging world

boost infrastructure investment (especially in Asia), to help green initiatives such as climate change and forestry, and to boost relationships between NGOs and Japanese companies operating in or seeking to operate in the emerging economies.

These missions are our lifeblood, but we are also focusing on sub-sectors, such as PPP initiatives in Asia, health and education and so forth.

I should add that after the Great East Japan Earthquake, the importance of the government policy institutions has risen again as people have focused on our future wealth and economic importance in the global arena.

In "The Strategy for Rebirth of Japan" endorsed by the Japanese government last December [2011], important strategies which closely related to JICA's activities were endorsed: supporting SME's overseas business activities; enhancing overseas deployment of integrated infrastructure systems; developing resilient infrastructures in developing countries; fostering Japan as one of the core industrial hubs in Asia; and contributing to the shift to a green economy.

JICA is assigned to implement those government policies, integrating all aspects of ODA from financial assistance to technical assistance. Our basic role is to enhance the social and economic development of the developing countries. In this regard, we believe investors can see clearly that JICA has robust ties with the Japanese government.

In response to increasing new activities as well as trade and investment in developing countries by Japanese private companies, we started supporting their

public-private partnership (PPP) in infrastructure projects and Bottom of the Pyramid (BOP) businesses under the Japanese government's announcement 'Public-Private Cooperation for Accelerated Growth' in April 2008 and the 'New Growth Strategy' announced in June 2010. We believe these efforts have allowed private sector businesses in developing countries to produce successful development results, including creating employment opportunities, cultivating human resources, and improving technologies.

In short, we have a massive and widespread mission and there is no doubt that the government is fully committed to JICA and fully supportive of our initiatives and actions.

JICA has been issuing bonds to institutional investors for the first time since your 'rebirth' in October 2008. And you have recently issued bonds to the retail market. Can you explain the funding mission and some of the highlights so far?

Kodera: We can issue with the government guarantee, but we have so far issued only without the guarantee, as we are so strong financially and we want to stand on our own feet. We like to issue bonds with a wide range of maturities and up to super long dated bonds of 30 years and eventually longer, as our assets are very long-dated, generally up to about 40 years, including a 10 year grace period.

We also issued ¥20 billion of retail bonds without the government guarantee in last December and that produced an excellent result with Japanese retail buyers of all types coming in, including

individuals, schools, churches and so forth. We followed the example set by the International Finance Facility for Immunisation (IFFIm), which exists to rapidly accelerate the availability and predictability of funds for immunisation through its Vaccine Bonds (The resources raised by IFFIm are used by the GAVI Alliance, a public-private partnership, which provides funds to purchase and deliver life-saving vaccines and strengthen health services in the world's poorest countries), which was a pioneer of the retail targeted Impact Investment bond issue format, which has become popular over the years with the supranational institutions, such as IFC, ADB, EIB etc. In this way we could appeal directly to the theme of corporate social responsibility.

We hope that by investing in JICA Agency Bonds the retail investors feel they are thereby contributing to sustainable growth in developing countries, and ultimately bringing direct and indirect benefits to Japan and all its partner countries.

You might later be able to lend directly in foreign currencies and potentially issue offshore bonds. Can you explain the current situation?

Kodera: There is substantial discussion with the government and analysis underway as to whether JICA can lend in foreign currencies directly and also potentially borrow in foreign currencies. So far there is no outcome to the discussions, but I can say that this is a complex matter that involves a significant ramping up of our own risk assessment and risk mitigation techniques, as well. ▀

Spreading its financing wings at home

EuroWeek also met with Yoshifumi Omura, JICA's director of funding. Omura is another lively personality; he is passionate about his work and committed to putting JICA at the forefront of domestic investors' minds. He also has an interest in promoting JICA's name internationally; JICA has gradually started to conduct investor relations tours, such as to Singapore and Hong Kong, with an eye to the agency's future.

Is JICA a regular issuer in the domestic bond market and how is your credit perceived at home?

Omura: JICA has some 68% of its capital injected by the government. Add to that our reserves and our total capital is more than 76%. And our borrowings from the government, priced at JGBs flat, carry no JICA collateral, and total more than 20% of our total assets. This means that from a pure balance sheet perspective our credit is remarkably strong, as our capital ratio is so robust.

However, we are 10% risk weighted, whereas the municipal government issuers are zero risk weighted. The market therefore prices names such as the Metropolis of Tokyo tightest to JGBs, about 7bp wider right now [mid March] at the 20 year maturity, with JFM, JICA and JBIC at about 7bp-8bp above JGBs, in Zaito bond format without the government guarantee.

How much of the capital market funding will be raised in the domestic market and what are the main funding instruments that you use in the local market?

Omura: We use Yen-denominated JICA agency bonds as the main funding instruments from capital market. All the JICA's agency bonds have been required to be arranged in the domestic capital market in Yen so far, according to the approval from Japanese government.

According to the JICA Act, we are allowed to issue bonds either with or without the government guarantee, although we have never issued bonds backed by the government since October 2008, when JICA was first allowed to become an issuer of bonds.

We issue without the government guarantee as we have aimed to be regarded as a stand-alone agency in the market. We believe it will lead to improvement of our corporate governance through investor relation activities such as punctual issuance and accountability for our periodical statement of accounts etc. Moreover, we try to adhere to the government's guidance that stipulates that government agencies should wherever possible issue bonds without the government guarantee.

What are your total funding requirements in 2012? What are the core

sources of this funding, between state and the private sector, and then between the bank/other sources and the capital markets?

Omura: Our total funding needs for the ODA Loan account is ¥880 billion in fiscal year 2012 [ending March 31, 2013]. It will be raised by the following means: capital contributions from the government ¥56.9 billion, borrowing from the government via the FILP programme ¥427 billion, the issue of ¥80 billion of JICA agency bonds, as well as funds on hand of ¥316.1 billion.

With such strong appetite in the domestic market for agencies and municipal debt, have you focused on the wholesale or retail investor base, or both?

Omura: We only began issuing bonds since our reorganisation in October 2008, so we are unlike the other major government agencies that have far more experience of the capital markets. However, we have been making every effort to understand the market and to be active and proactive in dealing with investor and intermediaries.

Our first mission has been to introduce ourselves and then expand our reach within the institutional investor base. And once we accomplished that to some success we expanded to the retail market with what was the first ever retail bond issued by a Japanese government agency.

The objective was to enhance the investor base for funding stability and to reach out to the huge retail investor base in Japan, most of whom have knowledge of JICA and its central role in ODA finance. We made a considerable effort to boost our name through investor presentations, and also via advertorial sections in top quality domestic newspapers.

We issued retail bonds in two tranches, one with a four year maturity and one maturing after 10 years. We enjoyed a favourable response from retail investors and we believe the issue was a considerable success.

The issue was also part of a wider effort to increase demand for socially responsible bond investment in the retail sector, given our position in the ODA sector. The bookrunner for the deal was Daiwa Securities, which has a strong presence in what are known as Impact Investment



Yoshifumi Omura,
JICA's director of funding

bonds, which are retail targeted bonds distributed in Japan and issued by multilateral borrowers such as the Asian Development Bank or other supranationals, and to finance green energy, water projects and other projects in the emerging economies.

Our retail bond offering was therefore similar to the Impact Investment bond issues, but it was also distinct as there was no single purpose, the funds were raised for our broad, non-specific, ODA purposes.

EuroWeek: Looking ahead to foreign issuance in the future, would that be with or without the state guarantee?

Omura: We issue without the guarantee in the local bond market under the government's guidance that government agencies should wherever possible issue bonds and in their own standing. In addition, because the pricing today in domestic market is so favourable for us in Zaito bond format the addition of the guarantee makes little difference.

On the other hand, JICA is not allowed to issue offshore bonds either with or without the state guarantee yet, but as we have been advised by the Council on ODA Reforms to develop foreign currency oriented products, we have been consulting with the Japanese government. Although we do not know when the government might give their assent, offshore borrowing might be one of the options for funding sources of such products.

In the offshore market we will review that situation nearer the time, but we remain entirely flexible in our approach. The currency selection will depend on our financial needs coming up from the new products. Most likely the currency denomination of such new product(s) would be limited to US dollars only in the initial stage. ▀