Finance and Investment Cooperation

In many developing countries and regions, economic and social infrastructure encompassing electricity, gas, transportation, water supply and sewerage systems, is underdeveloped. Furthermore, in recent years, in addition to poverty, global issues such as HIV/AIDS and other communicable diseases, air and water pollution, climate change, conflicts and terrorism, and financial crises have emerged. To address these issues, the international community set the Sustainable Development Goals (SDGs) as common goals, while individual countries have formulated a host of measures.

Finance and Investment Cooperation provides relatively large amounts of development funds under concessional terms to developing countries and regions to support their efforts for growth and development.

ODA Loans

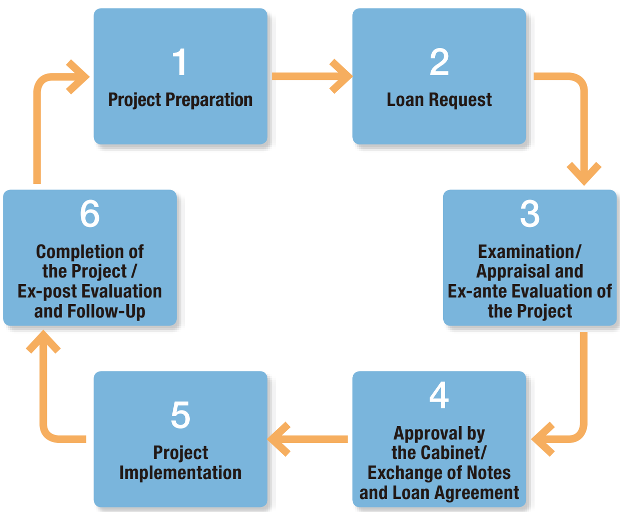
Support and Emphasize Ownership by the Developing Country

Ownership of developing countries is crucial for economic growth and poverty reduction in these countries. ODA Loans, which require repayment, promote efficient use of the borrowed funds and appropriate supervision of projects, thereby bolstering developing countries' ownership in the development process. In addition, as ODA Loans are financial assistance with a repayment obligation, this method of assistance places a relatively small fiscal burden on the Japanese government and represents a sustainable instrument for ODA.

Flow of ODA Loans: Project Cycle

ODA Loans follow six steps, and lessons learned from ex-post evaluations implemented at the final stage will be fed back into preparations for new projects. This flow of steps is called the Project Cycle.

Project Cycle



Types of ODA Loans

1. Project-Type Loans

(1) Project Loans

Project loans, which account for the largest portion of ODA Loans, finance projects such as roads, power plants, and irrigation, water supply and sewerage facilities. The loans are used for the procurement of facilities, equipment and services and/or for conducting civil and other related works.

(2) Engineering Service (E/S) Loans

Engineering Service (E/S) loans are for engineering services necessary in the course of survey and planning stages of projects. These services include reviews of feasibility studies, surveys on detailed data on project sites, detailed designs, and the preparation of bidding documents. In the same manner as project loans, completion of feasibility studies or their equivalent and confirmation of the project's overall necessity and relevance are prerequisites for this type of loan.

(3) Financial Intermediary Loans (Two-Step Loans)

Financial intermediary loans are implemented through the financial institutions of the recipient country based on the policy-oriented financial system of the partner country. These loans provide funds necessary for the implementation of designated policies, such as the promotion of small and medium enterprises in manufacturing, agriculture, and other specified industries and the construction of facilities to improve the living standards of the people with low income. These loans are known as "two-step loans (TSL)" because under the process, funds pass through two or more financial institutions before the end-beneficiaries receive the funds. Under this type of loan, funds can be provided to a large number of end beneficiaries in the private sector. Since these loans are implemented through local financial institutions, strengthening of the operational capabilities of these institutions and the development of the financial sector of recipient countries are also expected as the result of these loans.

(4) Sector Loans

Sector loans are for materials and equipment, services and consulting required for the implementation of development plans in a specific sector consisting of multiple sub-projects. This type of loan also leads to improved policies and systems in the sector.

2. Non-Project Loans

(1) Program Loans

Program loans support the implementation of national strategies and poverty reduction strategies of developing countries that are seeking to improve policies and implement general system reforms. In recent years, the most common type of these loans is one in which proceeds are incorporated into the target partner country's budget. In confirming achievement, consultation proceeds with future reform items in support of reforms based on a long-term framework. There are many instances in which these types of loans take the form of co-financing with the World Bank and other multilateral development banks (MDBs).

(2) Commodity Loans

In order to stabilize the economies of developing countries, commodity loans provide settlement funds for urgent and essential import of materials to the countries that are experiencing a worsening foreign currency situation and facing economic difficulties. These loans are often used to import commodities such as industrial machinery and raw materials, fertilizer and pesticide and agricultural and other kinds of machinery, the specifics of which are agreed on beforehand between the Japanese and recipient governments.

(3) Sector Program Loans

This type of loan is a commodity loan used simultaneously to support development policies in prioritized sectors of developing countries. Local-currency counterpart funds received by the government as payment for foreign currency sold to importers are utilized for public investment for sector-specific development.

Private-Sector Investment Finance

Support for Development Projects by the Private Sector in Developing Countries

In recent years, the importance of the private sector in economic and social development in developing countries has been steadily increasing, as international organizations as well as European and U.S. donors greatly boost their support for the private sector. Private-Sector Investment Finance (PSIF) aims to stimulate economic activity and improve the living standards of people in developing countries through equity investments and loans for projects undertaken in developing countries by the private sector.

Scope of Support

PSIF is for such projects with high levels of development effectiveness in developing countries as fall within following three categories: (1) infrastructure and growth acceleration; (2) SDGs and poverty reduction; and (3) climate change.

Organizational Structure of Risk Assessment and Control

PSIF has been resumed with an appropriate organizational structure for risk assessment and control. In addition to mutual checks and controls among the departments concerned, JICA conducts portfolio management for the whole of PSIF through an independent account[1] and is reinforcing its capacity for project implementation, risk assessment and management.

Issuance of Social Bonds as the First Issuer in the Domestic Market

JICA Bonds Contributing to Achieving the SDGs

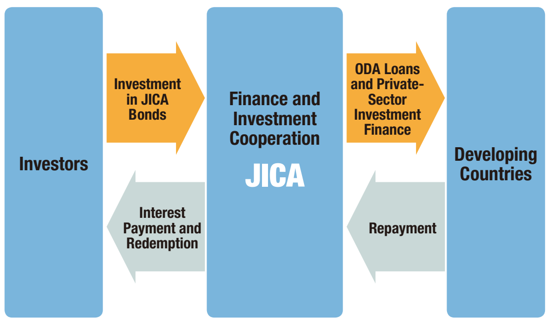
JICA has been issuing bonds (called JICA bonds below) since 2008.

In recent years, responsible investment, which incorporates environmental, social, and governance (ESG) factors into investment decisions, has been attracting investor's attention. Meanwhile, social bonds, whose proceeds are used for projects that address social issues, along with green bonds can be seen more often in the market than before.

In June 2016, the International Capital Market Association released guidance that defines social bonds, and JICA launched the first social bond in the domestic market in September 2016, responding to investor's request to label its bond a social bond.

JICA bonds are aligned with the character of social bonds, where proceeds are exclusively used for social projects in developing countries, and reporting, including external evaluation results, have been disclosed after the completion of each project to ensure high transparency.

Issuance of JICA bonds enables mobilization of financial resources of the private sector in Japan for the benefit of developing countries, which is one of the policy measures of the Government of Japan to achieve the SDGs. JICA will continue its funding through JICA bonds as social bonds and establish its firm investor base, which also contributes to stable funding.



1. In the Private-Sector Investment Finance independent account, loans totaled ¥5,970 million, affiliate companies' stock was ¥43,634 million, and investment securities were ¥2,646 million as of March 31, 2017. Ordinary revenues were ¥13,791 million (including dividends on investments of ¥13,645 million) and net income was ¥9,833 million in the year ended March 31, 2017. The independent account received the assets of the Private-Sector Investment Finance operations on October 1, 2008, when JICA was established under its current structure.
Ordinary revenues consist of dividends on investments, interest on loans, and other revenues from Private-Sector Investment Finance; ordinary expenses consist of loss on valuation of affiliated companies' stock, loss on investment securities, interest on borrowing, provisions for the allowance for possible loan losses, outsourcing expenses, and other items involving Private-Sector Investment Finance. Revenues and expenses that are not directly related to Private-Sector Investment Finance, (depreciation, real estate expenses, personnel expenses, etc.) are not included in the independent account revenues and expenses.