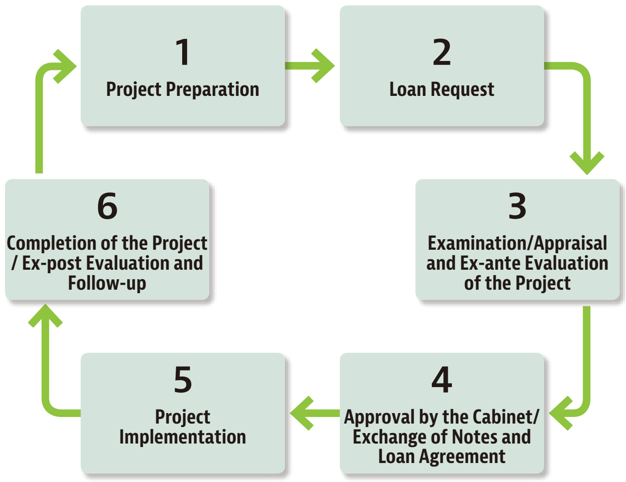
Finance and Investment Cooperation

In many developing countries, economic and social infrastructure, including 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 various measures.

Under the Development Cooperation Charter, Japan is also committed to addressing the challenges facing the international community, especially development and humanitarian issues. JICA supports developing countries under this principle.

Finance and Investment Cooperation is a type of ODA that lends or invests relatively large amounts of development funds under concessional terms to developing countries and regions to support their efforts for their growth and development.

Project Cycle



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 encouraging 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.

● Project Cycle

ODA Loans follow the six steps shown in the upper-right chart. These steps are called the Project Cycle, as lessons learned from ex-post evaluations implemented at the final stage will be fed back into preparations for new projects.

● Types of ODA Loans

1. Project-Type Loans

(1) Project Loans

Project loans are a major type of ODA Loan that finance projects such as roads, power plants, irrigation, water supply, and sewerage facilities. The loans are used for the procurement of facilities, equipment, services, and for conducting civil and other related work.

(2) Engineering Service (E/S) Loans

Engineering Service (E/S) loans are financed for engineering services necessary in the stage of survey and planning of projects, especially for large-scale projects and projects that involve many uncertainties. These services include detailed data collection on project sites, detailed designs, and preparation of bidding documents. In the same manner as project loans, the project's overall necessity and relevance must be confirmed through a feasibility study (F/S) or other suitable procedures.

(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 recipient country. These loans provide funds necessary for the promotion of small and medium enterprises, agriculture, other specified industries, and construction of facilities to improve living standards of the people with low incomes. 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.

(4) Sector Loans

Sector loans are for materials, equipment, services, and consulting services required for implementation of development plans in a specific sector consisting of multiple subprojects. It allows the smooth implementation of small subprojects dispersed across the borrowing country.

2. Program Loans

Program loans support the implementation of national strategies and poverty reduction strategies of developing countries that aim to improve policies and to implement system reforms.

In recent years, the type of loan that is incorporated into the borrowing country's budget based on the achievement of strategic goals by the borrowing country's government is getting more common. The confirmation process of the achievements involves consultations on future reform items to support developing countries with policy and institutional reforms within a long-term framework.

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 people's standard of living in developing countries through equity investments and loans for projects undertaken in developing countries by the private sector.

Scope of Support

PSIF is adopted for projects with high development effectiveness, categorized as follows: (1) infrastructure and growth acceleration; (2) SDGs and poverty reduction; and (3) climate change.

Organizational Structure of Risk Assessment and Control

PSIF is implemented 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 reinforces its capacity for project implementation, risk assessment, and management.

1. In the Private-Sector Investment Finance independent account, loans totaled ¥13,053 million, affiliate companies' stock was ¥43,546 million, and investment securities were ¥4,701 million as of March 31, 2018. Ordinary revenues were ¥19,752 million (including dividends on investments of ¥19,319 million) and net income was ¥15,211 million in the year ended March 31, 2018. 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.

JICA's First Dollar-Denominated Loan

In its traditional ODA Loan operations, JICA determined loan amounts, disbursed them, and received repayments, all in Japanese yen. Some developing countries, however, expected dollar-denominated loans, to take foreign exchange risks and currency swap costs into consideration.

To meet this particular need, JICA introduced Japanese ODA Loan with Currency Conversion Option[2] in 2012, thus enabling the repayment of ODA Loans in US dollars. Under this scheme, however, unpaid portions of debts needed to be managed in Japanese yen because the scheme was designed to denominate and disburse loans in Japanese yen terms. The scheme also involved currency conversion from Japanese yen to US dollars for the debt on completion of the loan disbursement, thus exposing the borrowing countries to exchange rate fluctuations as before.

Under these circumstances, the Japanese government set out a plan to create dollar-denominated loans[3] in the Follow-up Measures of "the Partnership for Quality Infrastructure" announced in November 2015. This type of loan is designed to allow determination of the loan amounts and disbursement and repayment of the loans in US dollars in order to enhance the attractiveness of Japanese ODA Loans for developing countries. JICA's first dollar-denominated loan was launched in November 2017, provided to Jamaica as the Energy Management and Efficiency Programme.

The introduction of dollar-denominated loans is expected to make Japanese ODA Loans more attractive for borrowing countries, as it will significantly reduce foreign exchange risks and currency swap costs for them.

Ceremony of signing an agreement on a dollar-denominated loan for Jamaica

2. For the details of the scheme, visit JICA's web page on "Currency Conversion Option" [➡https://www.jica.go.jp/english/our_work/types_of_assistance/oda_loans/currency/index.html]
3. Dollar-denominated loans are part of JICA's ODA Loan operations.