Finance and Investment Cooperation

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.

ODA Loans

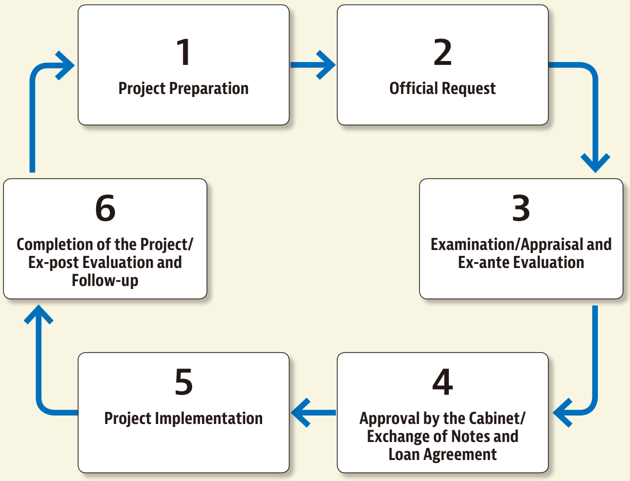
Support and Emphasize Ownership by the Developing Country

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 are carried out in a project cycle consisting of six major steps, as described in the chart at the upper-right. Lessons learned from ex-post evaluations will be utilized for preparing new projects.

Project Cycle



Types of ODA Loans

1. Project-Type Loans

(1) Project Loans

Project loans are a major type of ODA Loan that finances 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 the 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 spread 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 systemic 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 becoming 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. Together with the other international organizations as well as European and U.S. donors, JICA is greatly

Myanmar: An entrance to the special economic zone under development in the Thilawa area near Yangon. JICA supports the company that develops and manages the industrial park under the Private-Sector Investment Finance program, thus supporting Myanmar's economic development through public-private partnership. (Photo by Shinichi Kuno)

boosting its 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) measures against climate change [➡ see page 50].

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* and reinforces its capacity for project implementation, risk assessment, and management.

* In the Private-Sector Investment Finance (PSIF) independent account, loans totaled ¥27,615 million, affiliate companies' stock was ¥44,100 million, and investment securities were ¥6,033 million as of March 31, 2019. Ordinary revenues were ¥28,126 million (including dividends on investments of ¥20,872 million) and net income was ¥26,827 million in the year ended March 31, 2019. The independent account received the assets of the PSIF 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 PSIF; 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 PSIF. Revenues and expenses that are not directly related to PSIF (depreciation, real estate expenses, personnel expenses, etc.) are not included in the independent account revenues and expenses.

Supporting Operation and Maintenance of Infrastructure Facilities through Finance and Investment Cooperation

Toward Making Infrastructure More Sustainable

JICA operates Finance and Investment Cooperation mainly in the form of lending necessary funds to developing countries for the construction of infrastructure facilities as well as operation and maintenance (O&M) of these facilities, often undertaken by the countries themselves.

The problem is that in developing countries, technologies, expertise, and the financial resources needed for O&M are sometimes insufficient due in part to low public utility charges. Inadequate O&M often results in rapid infrastructure deterioration and facility failure, highlighting the growing need for O&M support in developing countries.

One attempt to meet this need is the Metro Rail Transit Line 3 Rehabilitation Project in the Philippines. The ODA Loan agreement for this project was signed in November 2018. This project is designed to rehabilitate vehicles and equipment that have seen their operation rates declining due in large part to their deterioration, and thus restore the safety and efficiency of the line without disrupting daily operations. It is also aimed at supporting the establishment of the implementation system for long-term O&M so that high operation rates will be maintained after the rehabilitation work is completed.

The Japanese government has made it clear that its ODA Loans and Private-Sector Investment Finance support not only facility construction and O&M service delivery but also human resources development and capacity building in order to promote O&M self-reliance, which are appealing to developing countries.

Expectations are high that JICA's continued support for O&M will contribute to developing countries' self-reliance and more business opportunities for companies with a competence in the area of O&M.

Signing ceremony for the ODA Loan agreement for the Philippines