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 to support their efforts for their growth and development.

ODA Loans

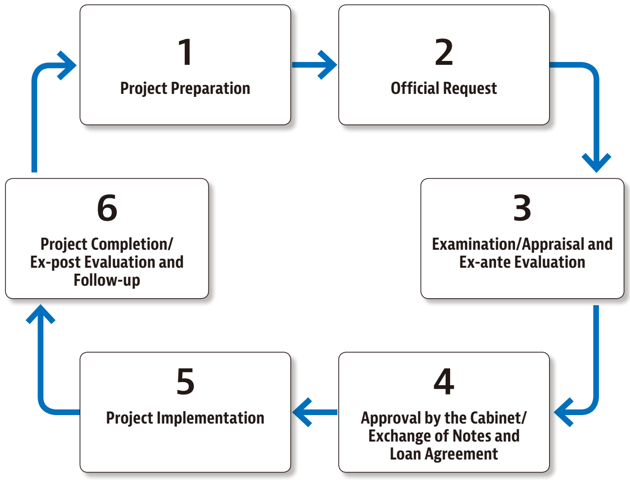
Support and Emphasize Ownership by the Developing Country

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, and 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 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

Kenya: A rendering of Africa's longest cable-stayed bridge at the port of Mombasa—a gateway to East Africa—to be constructed with Japanese technology and ODA Loans, both of which also supported the improvement of secondary roads. The bridge is expected to facilitate efficient transportation and logistics in Mombasa, which in turn will support the development of the regional economy.

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 [➡ see page 50].

Scope of Support

PSIF is adopted for projects with high development effectiveness categorized as follows: (1) infrastructure and growth acceleration; (2) Sustainable Development Goals (SDGs) and poverty reduction; and (3) measures against 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* and reinforces its capacity for project implementation, risk assessment, and management [➡ see page 84].

* In the Private-Sector Investment Finance (PSIF) independent account, loans totaled ¥30,745 million, affiliate companies' stock was ¥46,732 million, and investment securities were ¥3,875 million as of March 31, 2020. Ordinary revenues were ¥19,345 million (including dividends on investments of ¥15,852 million) and net income was ¥12,657 million in the year ended March 31, 2020. 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 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.

Private-Sector Assistance with a Combination of Financing and Expertise

Toward sustainable industrial development

JICA assists developing countries in addressing the challenges facing their private sector from various angles by mobilizing all the technological, professional, and financial resources available.

Take Ghana, for example. Although the export of cocoa beans provides a valuable source of foreign currency for Ghana, the country's cocoa industry has such problems as low productivity and child labor. In February 2020, JICA signed the Cocoa Value Chain Enhancement Project, a project aimed at improving the productivity of Ghana's cocoa industry under the Private-Sector Investment Finance scheme. In the project, JICA started assistance that involves replanting cacao trees and improving logistics facilities. In a related development, JICA launched the Platform for Sustainable Cocoa in Developing Countries in January 2020 as a forum where many actors, including Japanese businesses and NGOs, work together to address child labor and other issues surrounding the cacao industry. The aim is to achieve a cocoa industry that is socially, economically, and environmentally sustainable.

Another example is JICA's participation in the G7 2X Challenge: Financing for Women,[1] which is led by development finance institutions, as well as the Operating Principles for Impact Management,[2] which was introduced by the International Finance Corporation (IFC). JICA is thus committed to helping achieving the Sustainable Development Goals (SDGs) through its private-sector assistance in cooperation with other diverse actors.

Ghana: Officials from the state-run Ghana Cocoa Board and the chief representative of JICA Ghana Office at the launch ceremony of the Platform for Sustainable Cocoa in Developing Countries

1. The G7 initiative aimed at increasing investment in projects that will contribute to gender equality and women's economic empowerment.
2. A set of conditions for companies and organizations with the intent to contribute to a measurable positive social or environmental impact, alongside financial returns. The principles, if applied widely, will likely further encourage impact investment. In August 2019, JICA became the first Japanese signatory to the principles.