

Corporate Governance

Internal Control

In order to improve the effectiveness and efficiency of its operations, to comply with laws and other rules, and to accomplish objectives as stipulated in the Act of the Incorporated Administrative Agency–Japan International Cooperation Agency, JICA has developed a corporate governance structure that encompasses internal control as well.

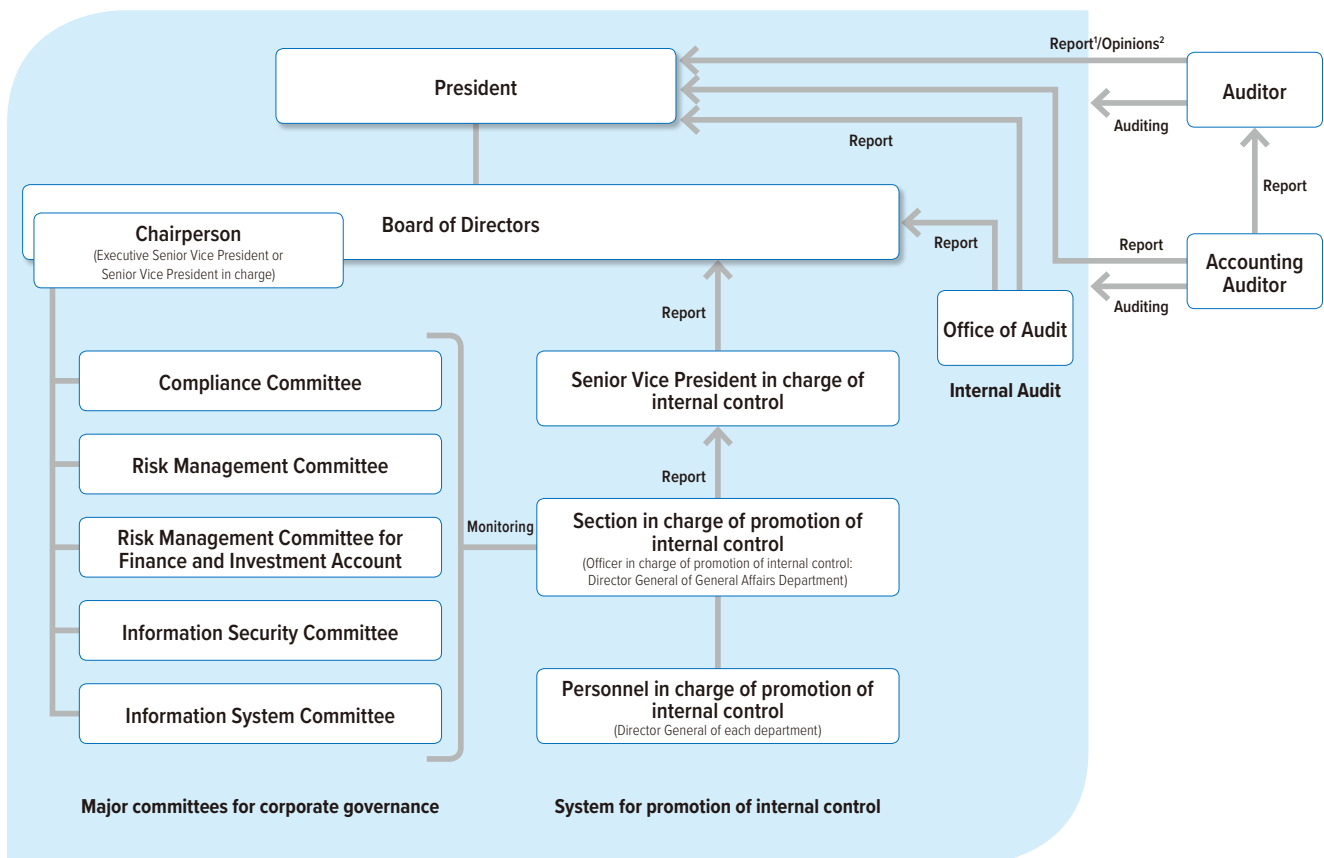
Specifically, in order to promote internal control as laid out in the Act on General Rules for Incorporated Administrative Agencies, JICA has established an internal control system where, under the President, who represents JICA and presides over its operations, the Senior Vice President in charge of general affairs takes charge of internal control along with the Director General of the General Affairs Department, who takes charge of its promotion in the organization. The status of internal control is monitored on a regular basis and reported to and deliberated on by the Board of Directors.

JICA has also established the Office of Audit as an independent section that conducts internal audits to ensure the efficiency and effectiveness of its operations. Furthermore, JICA receives audits from auditors and accounting auditors, and maintains the quality of its governance by improving its operations based on the results of the audits.

As part of its efforts to raise awareness and reinforce action for internal control, JICA has developed relevant internal regulations and a series of manuals that set out standard operating procedures. It has also compiled a policy document titled “Internal Control at JICA,” which is available to the public.

For important areas of internal control, JICA sets up committees that deliberate on relevant issues and take necessary precautions. JICA also has mechanisms to receive internal and external reporting for early detection and prevention of regulatory noncompliance.

Corporate Governance



1. The audit report is submitted to the competent minister via the president.
 2. Opinions can be submitted to the competent minister.

Compliance and Risk Management

JICA's Compliance Policy

- (1) JICA shall improve the transparency and fairness of its operations and financial activities in order to secure public trust.
- (2) JICA shall contribute to the sound development of the international community through development assistance in order to secure the trust of the international community.
- (3) JICA shall meet the needs of developing regions and swiftly and flexibly provide quality services.
- (4) JICA shall consider natural and social environments when conducting its operations.
- (5) JICA shall communicate well with various levels of society and maintain an organizational culture of transparency.

Compliance

It is important that JICA, as an organization that implements Japan's ODA in an integrated manner, meets the expectations of the Japanese public and the international community in accordance with social norms, not to mention laws, regulations, and rules.

To properly enforce compliance, JICA has in place rules and guidelines to be observed by its officers and staff as well as all parties involved in ODA projects. Among them, the Compliance Rules of JICA lay out a number of regulations designed to raise compliance awareness among officers and staff and to ensure fairness in operations. The Compliance Rules stipulate key reporting systems, including the Incident Reporting system, Internal Whistleblowing system, and External Reporting system. The Compliance Rules also delineate functions of the Compliance Committee. JICA also endeavors to prevent fraud and corruption,

such as bribery and other fraudulent practices, from occurring in JICA-funded projects by accepting reports at the Consultation Desk on Anti-Corruption and other means.

Risk management

For effective and efficient delivery of its organizational objectives and plans, such as the Medium-term Plans, JICA defines risks as factors that will act as barriers to its operations. It then assures implementation of risk management systems, performs risk identification and assessment, and deals with such risks for the smooth running of its projects.

All departments in JICA annually identify risks that are relevant to their operations. They assess how these risks affect their operations and strive to reduce them. The Risk Management Committee, which regularly meets with the Senior Vice President in Charge of Internal Control serving as chair, discusses and examines measures against each risk to strengthen organizational responses.

Activities in fiscal 2020

For compliance, JICA maintained the Consultation Desk on Anti-Corruption as well as the Internal Whistleblowing and External Reporting systems. It also held training sessions and seminars for its staff members and contracted personnel to raise their awareness about compliance and further prevent the recurrence of any fraud. In addition, JICA developed internal regulations aimed at preventing sexual exploitation, abuse, and harassment, against which the international community has recently been making concerted efforts to take more actions. These regulations clearly state that JICA has zero tolerance of sexual exploitation and abuse as well as sexual harassment.

The Risk Management Committee monitored the findings of self-review of risks at each department, analyzed the trend of increased risks due to the spread of COVID-19, put together the steps to address them, and ensured that these steps were taken within the organization.

Financial Risk Management of Finance and Investment Cooperation

The operations of Finance and Investment Cooperation involve various risks, including credit risk, market risk, liquidity risk, operational risk, and other risks. The nature as well as the volume of risks in JICA's operations and the ways to deal with them differ from the risks and countermeasures at private financial institutions. Nonetheless, it is essential for JICA to have appropriate risk management, just as at a financial institution.

More specifically, risk management of Finance and Investment Cooperation is positioned as a managerial issue that needs to be addressed systematically by the entire organization. JICA has thus

adopted a risk management policy for its operations. Under the policy, JICA identifies, measures, and monitors various risks. The objective of this policy is to ensure sound and effective operations and to earn returns commensurate with risks. JICA has established the Risk Management Committee for Finance and Investment Account that examines important issues related to integrated risk management.

Credit risk

Credit risk refers to the potential loss from difficulties or failure to

recover credit assets due to the deteriorating financial condition of a borrower. The main area of Finance and Investment Cooperation is lending. Consequently, the control of credit risk is a major part of JICA's risk management. Sovereign risk makes up a considerable part of the credit risk that accompanies ODA Loan operations. JICA, as an official financier, evaluates sovereign risk by making full use of information gathered through communication with the governments and relevant authorities in the recipient countries, multilateral institutions such as the International Monetary Fund (IMF) and the World Bank, other regional and bilateral donor organizations, and private financial institutions in developed countries. As for Private-Sector Investment Finance (PSIF), JICA assesses the risk associated with lending to private entities.

1. Credit rating system

JICA has established a credit rating system as part of the organization's operating procedures that is to cover all the borrowers. Credit ratings are the cornerstone of credit risk management, being used for conducting individual credit appraisals, calculating allowance for loan losses, and quantifying credit risks. Credit ratings are divided into two categories: sovereign borrowers and non-sovereign borrowers. A different credit rating system is used for each category. Ratings are subsequently updated as appropriate.

2. Self-assessment of asset portfolio

Self-assessment of asset portfolio refers to the act by financial institutions of categorizing their own assets according to the degree of risk of such assets becoming unrecoverable or their value being eroded. It provides a means to manage credit risks; it is also a requirement for implementing write-offs and allowance for loan losses in a proper and timely manner. JICA's internal rules for self-assessment align with the laws applicable to general financial institutions, and to ensure an appropriate checking function, the first-stage assessment is conducted by the financing departments while the second-stage assessment is conducted by the credit risk analysis department.

3. Quantifying credit risk

In addition to individual credit risk management, JICA is working on quantifying credit risks with a view to evaluating the risk of the overall loan portfolio. To do that, it is important to take into account the characteristics of JICA's loan portfolio, a significant proportion of which consists of long-term loans and sovereign loans to developing and emerging countries. Also, JICA takes into account multilateral mechanisms for securing assets such as the Paris Club, which is a unique framework for debt management by official creditor countries. By incorporating these factors in the credit risk quantification model, JICA measures credit risks and utilizes it for internal controls.

Market risk

Market risk refers to the potential losses incurred through changes in the value of assets and liabilities caused by fluctuations in foreign currency exchange rates and/or interest rates.

JICA bears risks arising from long-term fixed interest rate loans due to the characteristics of its lending activities. In this regard, JICA is enhancing its capacity to absorb interest rate risk by using capital injections from the General Account Budget of the Japanese government.

Furthermore, interest rate swaps are carried out exclusively for the purpose of hedging interest rate risk. In order to control the counterparty credit risk of interest rate swaps, the market value of transactions and the creditworthiness of each counterparty are constantly assessed, and collateral is secured when necessary.

JICA hedges exchange rate risks, which may arise from foreign currency denominated loans and the Japanese ODA Loan with Currency Conversion Option, by way of issuing foreign currency denominated bonds as well as currency swaps, etc.

Moreover, when foreign currency denominated investments are extended in PSIF, the valuation of investments is exposed to exchange risks. JICA manages this risk through regular and continuous monitoring of exchange rate fluctuations in the currency of the country in which the counterparty is located.

Liquidity risk

Liquidity risk refers to the risk of having difficulty securing sufficient funds due to a deterioration of JICA's credit or to an unexpectedly large increase in expenditures or an unexpectedly large decrease in revenues.

JICA uses many measures to avoid liquidity risk through management of its cash flow. This includes efforts to secure multiple sources of funds such as Agency Bonds and borrowing under the Fiscal Investment and Loan Program.

Operational risk

Operational risk refers to potential losses incurred from work processes, personnel activities, improper systems, or other external events. For JICA, this refers to risks that stem from its operations, systems, and internal or external misconduct. JICA manages operational risks as part of efforts to promote its compliance policy.

Information Security and Personal Information Protection

JICA has been engaging in information security and protection of personal information by developing internal regulations for information security and personal information protection.

JICA has enhanced information security measures and revised related internal regulations to ensure safe use of the new system infrastructure that is being developed to cope with increased opportunities to work from home amid the COVID-19 pandemic.

JICA also worked to reinforce personal information protection in light of the Guidance Concerning the Measures to Properly Manage the Personal Information Held by Independent Administrative Agencies, etc. (October 2018 notice of the Administrative Management Bureau,

Ministry of Internal Affairs and Communications) as well as the EU's General Data Protection Regulation (GDPR), which was put in force in May 2018. Specifically, JICA revised its handbook of personal information protection and selected a representative in the EU under GDPR.

Today, we face a growing need for stricter information security and personal information protection. JICA has been stepping up efforts to meet this need in its operations. These efforts included, among others, (1) offering drills and training courses for staff, and (2) strengthening the framework of the Computer Security Incident Response Team (CSIRT).

Information Disclosure

In accordance with the Act on Access to Information Held by Independent Administrative Agencies, JICA, through its website and other means, provides access to information related to its

organization, operations, and finance; information related to the evaluation and audit thereof; information related to procurement and contracts; and information on related entities.

Efforts to Improve Management of Organization and Operations

Based on the Medium-term Objectives and Plan, JICA has been working on improvement of organizational and operational management. Specific activities in fiscal 2020 are shown below:

Development of organizational foundations for strategic operational management

JICA reorganized its issue-based departments and sections to clarify the division of responsibilities within JICA for the achievement of the SDGs and promote cooperation with various actors in Japan and abroad as well as the maximization of its outputs in relation to each issue. JICA also established the Operations Support Department aimed at integrating and streamlining the procedures, systems, and operations for dispatching experts and consultants under contract to JICA [→ see page 78]. In addition, JICA set up

the Office for COVID-19 Response and the Office for Science, Technology and Innovation, and Digital Transformation.

Optimization and streamlining of administrative operations

JICA is committed to streamlining its administrative operations to meet domestic and international expectations for Japan's ODA. In the course of optimization and streamlining of administrative operations, JICA has focused on reducing fixed expenses, optimizing personnel expenses, streamlining its assets, and improving the procurement process.

Major activities during fiscal 2020 include the experimental introduction of electronic proposal acceptance and electronic bidding to facilitate the digital transformation of procurement operations.

For information related to personal information protection, visit [JICA's Web page](https://www.jica.go.jp/english/policy/index.html) <https://www.jica.go.jp/english/policy/index.html>.

For information related to disclosure, visit [JICA's Web page](https://www.jica.go.jp/disc/index.html) <https://www.jica.go.jp/disc/index.html> (Japanese only).