

**1. Summary of operations implemented using FILP funds**

As a core institution providing Official Development Assistance (ODA), Japan International Cooperation Agency (JICA) supports developing countries by providing concessional funds with low interest rates and super-long terms to finance development efforts for economic and social development and poverty reduction.

ODA Loan: Lending, to foreign governments or others in developing areas, for the execution of development projects (projects deemed to contribute to economic and social development in developing areas and also deemed to be necessary for the promotion of economic relations between such areas and Japan), or for the accomplishment of plans related to the economic stability of such areas.

Private Sector Investment Finance (PSIF): Debt or equity finance to corporations or others in Japan or in developing areas, for the execution of development projects.

**2. Amount of lending under FY 2011 FILP**

(Unit: billion yen)

FY 2011 FILP	Estimated outstanding amount of FILP lending at the end of FY 2010
438.0	2,662.5

**3. Outcome and social and economic benefits of operations**

## 1) Lending and equity finance

- Accumulated amount of loan and equity participation commitments during FY 1961-2009: ¥27.0332 trillion
- Accumulated amount of loan and equity participation disbursements during FY 1961-2009: ¥20.3158 trillion
- Loan and equity commitments in FY2009: ¥967.6 billion
- Loan and equity disbursements in FY2009: ¥745.1 billion
- Loan outstanding balance as of the end of FY2009: ¥11.1976 trillion

## 2) Social and economic benefits

- Contribution to the establishment and maintenance of good relationships with developing countries through continued assistance from Japan;
- Contribution to economic and social development, poverty reduction, environmental conservation, and stabilization of national economy in developing countries by improving infrastructure and alleviating poverty;
- Contribution to stability and development in the international community through tackling global issues (global warming, etc.), peace-building, and responding to disasters;
- Contribution to improvement in policy framework as well as human resource development in developing countries through intellectual assistance;
- Promotion of economic and personnel exchanges between Japan and developing countries through application of the experience, technologies, and know-how possessed by the private sector, local governments, NGOs, and universities.

**(Reference 1) Survey on the impact of Japanese ODA on economic development in developing countries**

- The impact of ODA loan on the economic growth (growth rate of GDP per capital) is found positive regardless of the difference of the policy and institutional environment. It was measured by analyzing the impact of ODA loan and ODA grant respectively, using data from 1970 to 1997. (Kohama, H. Sawada, Y. and Kono, H. (2003) "Aid, Policies, and Growth Reconsidered").
- According to the verification of correlation between ODA and GDP using panel data from 1960 to 1997, an increase in ODA equivalent to 1% of GDP of the aid receiving country expands the growth rate of GDP per capital from 0.14% to 0.26% and 20-dollar increase in ODA per capita raises the growth rate of GDP per capital by 0.16%. (G. Karras (2006) "Foreign Aid and Long-run Economic Growth: Empirical Evidence for a Panel of Development Countries.")
- According to the empirical analysis on whether foreign aid facilitates FDI flows into the aid recipient country, the foreign aid from Japan has a positive effect on FDI flows of Japanese companies, while aid from other donor countries (the paper analyzed foreign aid from Japan, U.S., United Kingdom, Germany and France) reveals no such effect. (Kimura, H. and Todo, Y. (2007) "Is Foreign Aid a Vanguard of FDI? A Gravity-Equation Approach")

**(Reference 2) ODA loan social benefit index:**

The average EIRR (Economic Internal Rate of Return) of ODA loan projects which were completed and evaluated between FY2000 and FY2009 was 17.1%. (EIRR is an indicator to show the socio-economic benefits of development projects.) (JICA survey implemented in FY2010)

**(Reference 3) Direct and indirect contributions to the Millennium Development Goals (JICA survey implemented in FY2010)**

- (Safe drinking water) Based on Ex-post project evaluations implemented from FY1999 to FY2009, supply of safe drinking water to more than 73 million people through waterworks projects around the world.
- (Disaster prevention) Contribution toward protection of about 28 million people from disaster through 5 projects pertaining to flood control, etc. which ex-post project evaluations were implemented from FY2005 to FY2009.
- (Airports) From FY1999 up to the end of FY2009 assistance through ODA loans for major international airports in Malaysia, China, the Philippines, Indonesia, Sri Lanka, and other countries. Response to yearly passenger demand of about 120 million people.
- (Railroads) Based on ex-post project evaluations implemented from FY 1999 to FY2009, railroad improvement project in Indonesia, India, the Philippines, China, and other countries have contributed to the transport of more than 1,220 million passengers per year.
- (Roads) Based on ex-post project evaluations implemented from FY 1999 to FY2009, road improvement projects in developing countries have led to the construction of approximately 6,700 km of new road and improvement of approximately 96,000 km of existing road, and realized traffic volume of about 5.5 million vehicles per day.
- (Ports and harbors) Based on ex-post project evaluations implemented from FY 1999 to FY2009, port and harbor improvement projects in China, India, Indonesia, Vietnam, Bulgaria, and other countries have contributed to realize cargo handling volume of about 850 million tons per year.
- (Power generation) Based on ex-post project evaluations implemented from FY 1999 to FY2009, construction of power generation facilities in India, Vietnam, Indonesia, Nepal, Peru, Albania, etc. has supported power generation of more than 137,000 GWh per year (according to the world average, this is equivalent to the amount consumed by over 49 million people in 2008).
- (Environment) Based on Ex-post project evaluations implemented from FY 1999 to FY 2009 supported afforestation of more than 1,750,000 ha (equivalent to 8 times as large as the area of Metropolis of Tokyo (219,000 ha)) in countries including India and the Philippines.

**4. Estimated policy (subsidy) cost analysis of the project**

Policy (subsidy) cost

(Unit: billion yen)

Category	FY2010	FY2011	Fluctuation
1. Subsidies, etc. from the Government	-	-	-
2. Money transferred to the Government	-1,984.6	-1,549.4	+435.2
Subtotal (1+2)	-1,984.6	-1,549.4	+435.2
3. Opportunity cost of capital investments, etc. from the Government	2,477.6	2,045.5	-432.1
Subtotal (1+2+3)	493.0	496.1	+3.1
4. Decrease in retained losses	-	-	-
Total (1+2+3+4=policy cost(A))	493.0	496.1	+3.1
Analysis period ( years )	40	40	-

Breakdown of policy cost by the time of the provision of funds

(Unit: billion yen)

Category	FY2010	FY2011	Fluctuation
(A) Policy cost (previously cited)	493.0	496.1	+3.1
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	4,607.6	4,381.8	-225.8
2) Policy cost expected to be newly accrued during the analysis period	-4,114.6	-3,885.7	+229.0
Subsidies, etc. from the Government	-	-	-
Money transferred to the Government	-1,984.6	-1,549.4	+435.2
Policy cost accrued with a change in surplus funds, etc.	-2,194.0	-2,373.3	-179.3
Opportunity cost of capital investments, etc.	64.0	37.0	-27.0

Year-to-Year comparison analysis

(Unit: billion yen)

Category	FY2010	FY2011	Fluctuation
(A) Policy cost (previously cited)	493.0	496.1	+3.1
(A') Policy cost obtained by re-calculating (A) using the same assumed interest rate as in the FY2010 analysis	493.0	604.1	+111.1
(B) Policy cost of (A') generated in FY2011 or later	585.3	604.1	+18.9
Policy cost in FY2011 is + ¥496.1 billion. The analysis shows an increase of ¥18.9 billion in real policy cost over FY2010 when the effect of change in the assumed interest rate for FY2010 and FY2011 is eliminated and the policy costs that accrue in FY2011 and thereafter are compared. This increase in real policy cost is considered to be attributable to the following factors: Increase in cost by new loans provided in FY2011 (+ ¥18.6 billion) Decrease in cost due to the bad debt charge-off (- ¥1.2 billion) Others (Increase in costs due to outsourcing expenses to promote ODA loan operations) (+ ¥1.5 billion)			

Breakdown of policy cost by causative factor

(Unit: billion yen)

(A) Policy cost in FY2011 (previously cited)	496.1
1) Prepayments	-
2) Loan losses	336.2
3) Others (including spread)	160.0

Sensitivity analysis (cases where assumptions change)

(Unit: billion yen)

Changed assumption and extent of change	Policy cost (Fluctuation)	
Interest rates on money loaned and funds raised +1%	Without change in discount factor	With change in discount factor
	381.1 (-115.1)	1,062.6 (+566.5)
Fluctuation in opportunity cost	-	+2,063.8
10% rise in charge-off	545.6 (+49.4)	
Fluctuation in opportunity cost	-	

**(Reference)**

Budgeted amount of subsidies and capital investment in FY 2011

Subsidies, etc.: -

Capital investment, etc.: ¥64.4 billion

\*Components in each column may not add up to the total because of rounding.

## 5. Outline of estimation and project prospect employed in the analysis

- 1) The estimation covers the Finance and Investment Account.
- 2) Scale of account: Outstanding balance of financing as of the end of 2009 was 11,197.6 billion yen, and planned amount of financing for FY2010 and FY2011 is 1,841.0 billion yen.
- 3) The analysis period is 40 years from FY2011 to FY2050, when the longest-term loans will have been repaid.
- 4) The standard interest rates of JICA apply to new loans.
- 5) Prepayments are not expected, because ODA loans are provided at extremely concessional conditions.
- 6) Based on classification as administrative expenses for new FY2011 financing and administrative cost for management of past projects, it has been determined that administrative costs for the latter will be reduced in line with changes in the balance in FY2012 and beyond.
- 7) The estimated charge-off amount in sovereign loan is based on internal country ratings in order to reflect the unique characteristics of the Paris Club and other public organizations as much as possible, while, in the case of non-sovereign loans, it is calculated using external statistical data widely used by private financial institutions. The charge-off ratio for both types of loans is as given below.

FY	Result				Estimated	Planned	Assumptions for calculation
	2006	2007	2008 last half	2009	2010	2011	2012 to 2050 (cumulative ratio)
Charge-off ratio			0.2	-	-	-	4.7%

- 8) The allowance for possible loan losses was ¥156.0 billion and risk monitored loans was ¥628.7 billion (as of the end of FY2009). Their shares of the total outstanding loan balance were 1.4% and 5.7% respectively.

## 6. Reasons for granting of subsidies, mechanism and underlying laws

This account receives capital investment from the General Account of the Government, as financial resources needed for providing highly concessional loans with long terms and low interest rates to developing areas as Official Development Assistance.

(Underlying laws and regulations (Tentative Translation))

- Capital investment

“Japan International Cooperation Agency Law”

Article 5-2: The Government may, when it finds necessary, make additional capital contributions to the Agency within the amounts prescribed by the budget.

- Payment to the National Treasury

“Japan International Cooperation Agency Law”

Article 31-5: With respect to the Accounts for the Finance and Investment for each business year, if the calculation of profits and losses resulted in a profit, the Agency shall use it to make up the losses carried forward from the preceding business year, and if there is still any residual amount, shall accumulate such amount as a reserve fund for finance and investment until it reaches the amount equal to the amount of stated capital allocated for the Accounts for the Finance and Investment.

8: The Agency shall pay the balance, obtained by deducting the amount accumulated as the reserve fund for finance and investment pursuant to the provision of paragraph 5 from the residual amount prescribed in said paragraph, to the National Treasury by May 31 of the following business year.

## 7. Special remarks

- 1) As for the financing related to the Finance and Investment operations, the Japan International Cooperation Agency Law restricts the type of loans that can be extended to those with concessional lending conditions in terms of interest rate, repayment period, etc. This is to prevent the lending conditions from overburdening the recipient developing countries. JICA is conducting the operations in compliance with this provision of the Law.  
As a result, there has emerged a structure where JICA frequently lends funds at lower interest rates than the JICA's borrowing interest rates by providing concessional funds with long terms and low interest rates.
- 2) Based on the Reorganization and Rationalization Plan for Special Public Corporations (endorsed by the Cabinet on 19 December 2001), the analysis was done on the premise that lending and investment for PSIF would only be made for projects approved by the end of 2001 or projects subsequent to the approved ones. However, the New Growth Strategy, decided on by the Cabinet in June 2010, stated, “With regard to Private Sector Investment Finance by the Japan International Cooperation Agency (JICA), in order to provide loans for highly-effective development projects which cannot be financed by existing financial institutions, Japanese Government and JICA will fully study and evaluate past successes and failures and establish a system for risk examination and management, toward restart.” The Cabinet Decision on Realizing the New Growth Strategy 2011 in January 2011 stated, “JICA Private Sector Investment Finance will be resumed during the fiscal year for specific cases. This will be carried out through 1) verification and improvement of a new implementation system and 2) a pilot approach that works out the rules for selection of the project.” The resumption came under the pilot approach in March 2011.
- 3) In the budget screening session by the Government Revitalization Unit in April 2010, JICA's lending operations were subjected to “enhance function of appraisal.” Since then, JICA has considered and implemented third parties' participation in the selection of the project and the process of the appraisal, the qualitative improvement of ex-post project evaluation and other measures to enhance appraisal.
- 4) Changes in policy cost to date are as indicated below. Since policy cost analyses before FY2008 are based on accounting principles for special public corporations, they cannot be compared with those after FY2009 which are based on accounting standards for Incorporated Administrative Agency.

FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
¥443.9	¥529.1	¥589.7	¥371.5	¥431.4	¥446.6	¥519.4	¥245.5	¥493.0	¥496.1
billion	billion	billion	billion	billion	billion	billion	billion	billion	billion

(Note) FY2008 and earlier data are for the former Japan Bank for International Cooperation (Overseas Economic Cooperation Account).

**(Reference) Financial Statements**

**Balance Sheet**

(Unit : million yen)

(Assets)				(Liabilities and Net Assets)			
Item	End of FY2009 (Result)	End of FY2010 (Planned)	End of FY2011 (Planned)	Item	End of FY2009 (Result)	End of FY2010 (Planned)	End of FY2011 (Planned)
Current assets	10,995,490	11,234,805	11,588,137	Current liabilities	412,744	335,704	339,817
Cash and bank deposits	14,691	37,573	35,485	Borrowings from government fund for FILP due within one year	394,775	318,067	323,204
Loans	11,054,312	11,275,690	11,638,883	Accrued payments	5,467	5,467	5,467
Allowance for possible loan losses	-131,415	-136,247	-149,765	Accrued expense	11,980	11,790	10,809
Accrued income	52,688	48,999	47,360	Lease liabilities	163	161	111
Derivatives	—	3,852	11,036	Deposit received	31	31	31
Other current assets	5,214	4,939	5,138	Allowance for bonuses	199	189	195
Fixed assets	137,534	129,624	130,169	Suspense receipt	128	-	-
Tangible fixed assets	17,719	10,601	10,801	Fixed liabilities	2,422,950	2,512,106	2,707,211
Buildings	2,970	2,226	2,256	Bonds	80,000	255,000	335,000
Land	13,873	7,782	7,782	Borrowings from government fund for FILP	2,335,395	2,249,475	2,364,271
Construction in process	50	-	—	Long-term lease liabilities	183	29	226
Other tangible fixed assets	826	593	764	Allowance for retirement benefits	7,371	7,533	7,645
Intangible fixed assets	0	0	0	Asset retirement obligation	-	69	70
Trademark rights	0	0	0	(Total liabilities)	2,835,694	2,847,810	3,047,028
Investment and other assets	119,816	119,022	119,368	Capital	7,518,156	7,622,556	7,686,956
Investment securities	6,226	5,917	5,816	Government investment	779,252	890,059	973,180
Affiliated companies stock	112,521	111,773	111,773	Retained earnings	590,585	779,252	890,059
Claims in bankruptcy, rehabilitation, reorganization or other equivalent claims	24,557	25,440	26,275	Reserve	188,666	110,807	83,121
Allowance for possible loan losses	-24,557	-24,970	-25,360	Unappropriated income for the current year	(188,666)	(110,807)	(83,121)
Long-term prepaid expenses	1	1	1	(Total income for the current year)	(188,666)	(110,807)	(83,121)
Guarantee deposits	1,067	862	864	Valuation and translation adjustments	-76	4,005	11,143
				Net unrealized gains on other securities	-76	-41	-12
				Deferred hedge profit/loss	-	4,045	11,156
				(Total net assets)	8,297,331	8,516,619	8,671,279
<b>Total assets</b>	<b>11,133,025</b>	<b>11,364,429</b>	<b>11,718,307</b>	<b>Total liabilities and net assets</b>	<b>11,133,025</b>	<b>11,364,429</b>	<b>11,718,307</b>

Note: Totals may not agree due to rounding.

**Income Statement**

(Unit : million yen)

Item	FY2009 (Result)		FY2010 (Planned)		FY2011 (Planned)	
Ordinary expenses		77,888		93,919		112,836
Expenses related to operations of cooperation through finance and investment	77,888		93,919		112,836	
(Interest on bonds and notes)	(1,412)		(2,778)		(9,213)	
(Interest on borrowings)	(46,871)		(43,187)		(42,146)	
(Interest on interest-rate swap)	(—)		(1,992)		(5,227)	
(Outsourcing expenses)	(13,665)		(20,219)		(22,962)	
(Bond issuance expenses)	(248)		(734)		(473)	
(Foreign exchange losses)	(—)		(14)		(—)	
(Personnel expenses)	(3,640)		(3,958)		(3,888)	
(Provision of Allowance for bonuses)	(—)		(—)		(6)	
(Retirement benefit expenses)	(—)		(161)		(112)	
(Property expenses)	(10,813)		(13,851)		(14,072)	
(Depreciation expenses)	(387)		(404)		(431)	
(Taxes)	(31)		(126)		(126)	
(Loss on valuation of investment securities)	(40)		(360)		(131)	
(Loss on valuation of affiliated companies stock)	(782)		(749)		(—)	
(Interest expenses)	(—)		(0)		(0)	
(Other ordinary expenses)	(—)		(5,245)		(13,908)	
(Contingency)	(—)		(141)		(141)	
Ordinary revenues		266,660		211,723		195,961
Revenues from operations of cooperation through finance and investment	259,200		211,283		195,932	
(Interest on loans)	(214,547)		(204,957)		(192,021)	
(Interest on government bonds, etc)	(45)		(10)		(7)	
(Dividends on investments)	(9,691)		(4,880)		(2,528)	
(Commissions)	(1,441)		(1,437)		(1,376)	
(Foreign exchange profits)	(11)		(—)		(—)	
(Gain on valuation of affiliated companies stock)	(17,113)		(—)		(—)	
(Reversal of allowance for possible loan losses)	(16,353)		(—)		(—)	
Financial revenues	3		6		2	
Miscellaneous profits	457		62		27	
Profits on loans written off	—		372		—	
Grants from government's general account	7,000		—		—	
Ordinary profits		188,772		117,804		83,125
Extraordinary losses		130		7,007		4
Loss on retirement of fixed assets	130		68		4	
Impairment loss	—		6,930		—	
Effect of implementing accounting standards for the asset retirement obligation	—		9		—	
Extraordinary profits		24		11		—
Gain on sales of fixed assets	0		0		—	
Reversal of allowance for bonuses	24		11		—	
Net income		188,666		110,807		83,121
Total income for the current year		188,666		110,807		83,121

Note: Totals may not agree due to rounding.