No

Japan International Cooperation Agency

The Study of Basic Approach for Financial Sector Development Assistance

Final Report

February 2006

The Japan Economic Research Institute

ED
JR
06-025

Japan International Cooperation Agency

The Study of Basic Approach for Financial Sector Development Assistance

Final Report

February 2006

The Japan Economic Research Institute

PREFACE

In order to deal with the diversification of developing countries and complicated development issues appropriately, Japan International Cooperation Agency (JICA) has been strengthening the country-based and issue-based approaches. In that respect, JICA conducted reorganization in April 2004 and established five sector departments in order to strengthen the sector-based structure and to accumulate and utilize sector-based knowledge efficiently and effectively.

JICA also has been making "thematic guidelines" for various issues. Regarding the economic sector, JICA published "the thematic guideline on economic policy sector" (only in Japanese) in February 2005.

Following up the guideline on economic policy sector, this study focuses on the financial sector which has become one of the most important sectors in the international cooperation, tries to grasp the current situation surrounding the sector, summarizes knowledge and experiences JICA has accumulated, and elaborates what JICA should be for the cooperation in the sector.

JICA conducted the study by entrusting to the Japan Economic Research Institute (JERI) from November 2005 to February 2006. Accordingly, the contents of this report do not necessarily reflect the current views or opinions of JICA.

I hope the result of this report will be utilized for making "the thematic guideline on financial sector" more relevant in the future, strengthening the sector-based approach and contributing to the effective planning and implementation of our cooperation in this sector.

Finally, I wish to express my sincere appreciation to the persons concerned for their close cooperation throughout the study.

February 2006

Hiroyo Sasaki
Managing Director
Economic Development Department

Contents

Glossary

Term	Description
Financial Term	
ALM: asset liability management	A comprehensive risk management technique designed to control liquidity risk, market risk and credit risk, etc. by maintaining a comfortable surplus of assets beyond liabilities. Bank's ALM requires reliable economic and financial forecasts as well as an adequate estimation of the bank's permissible range of risks.
asset securitization	Asset securitization is a way to transform illiquid assets and financial claims into tradable securities
asset self-assessment	Financial institution carries out self-assessment of its assets by classifying them by the degree of risks involved.
balance sheet regulation	Various financial regulations(such as capital adequacy ratio) on financial balances(ie. Assets, liability & equity) of financial institutions to make them be financially healthy.
call money market	A market in which financial institutions exercise short-term loans transactions.
capital market	Financial market in which corporations and financial institutions raise long-term funds necessary for private equity and infrastructure investments. Capital market may indicate long-term capital market or securities market, but it is mostly used to indicate the latter that includes stock and bond markets.
credit analysis	Financial analysis used to determine the creditworthiness of a company or a project.
credit information	Various financial information used to determine the creditworthiness of a company or an individual with financial transaction.
credit market	Financial market where corporations and financial institutions buy and sell credit risks.
credit rating	Credit rating is an assessment of the creditworthiness of borrowers based on their repayment ability.
credit risk	Credit risk is the risk of payment default.
deposit insurance	Deposit insurance is a system that settles bank debts once a bank goes bankrupt by paying depositors on the bank's behalf.
depository (deposit-taking) financial institution	Financial institution, such as private commercial bank, that mobilize deposits from the general public.
derivatives	Derivatives are financial securities whose value are derived from that of an underlying financial instrument, commodity, etc. E.g. futures, swaps and options.
development finance institution	state-owned financial institution that provides finance to projects of high development priority.

Term	Description
direct finance	Direct financing is financing done without the intermediation of financial institutions. Borrowers will directly interact with lenders.
financial intermediation	To accept deposits from the public and make loans to those needing credit.
indirect finance	Indirect finance is a deal that the third person (e.g. financial institution) exists between borrowers and lenders.
informal finance	Informal finance is borrowing from informal sources such as loans from family members or friends.
inter-bank money markets	The market in which banks borrow or lend money among themselves to accommodate short-term shortages. (E.g. call money market, bill discount money market,etc.)
microfinance	Financial services (such as loans and savings) provided to the poor.
money laundering	Money laundering is an act to conceal the true source of the funds that are gained through illegal activities.
Multilateral Development Banks: MDBs	Financial institutions established to enhance development of its world-wide member countries. (E.g. WB Group, IMF)
ODA Loans	Lending on terms more favourable to the borrower country than those obtainable through normal market transactions.
open money market	Financial market in which short-term funds are transferred between non-financial institutions as well as financial institutions (E.g. claim bond repurchase market, markets for commercial paper, certificate of deposits, short-term treasury bond, etc.)
private equity fund	A fund that specializes in private equity investment management
prudential policy	A general term for policies implemented to maintain the stability of financial systems.
safety net	Safety net is a mechanism that prevents the entire financial system from being destabilized by some financial institutions that declared bankruptcy.
securities market	Financial market where securities such as stocks and bonds are traded. It consists of primary market in which investors have the first opportunity to buy a newly issued security and secondary market where existing securities are traded.
settlement system	A mechanism that facilitates the smooth settlement of payment, securities and foreign exchanges.
short-term money market	Market in which short-term funds are raised, invested and traded. It consists of two main markets: interbank market and open market.
venture capital	A fund that specializes in investing in pre-revenue companies and projects.

Multilateral Development Banks: MDBs	
World Bank	It provides development funds in countries and regions all over the world.
International Monetary Fund: IMF	It exercises firm surveyllance over the exchange rate policies of its members, and it assists countries in balance of payment difficulties by providing loans.
Asian Development Bank: ADB	It is a multilateral development finance institution that focuses on accelerating regional development in Asia and the Pacific.
African Development Bank: AfDB	It is a multilateral development finance institution that focuses on accelerating regional development in Africa.
European Bank for Reconstruction and Development: EBRD	It is a multilateral development finance institution that focuses on accelerating regional development in the Middle and East Europe as well as in Central Asia.
Inter-American Development Bank: IDB	It is a multilateral development finance institution that focuses on accelerating regional development in Latin America and the Carribbean.
International organizations	
International Fund for Agricultural Development: IFAD	It promotes an alternative sustainable livelihood to the poor living in agricultural and rural areas in developing countries.
United Nations Development Programme: UNDP	It is the UN's global development network, an organization advocating for change and connecting countries to knowledge, experience and resources to help people build a better life.
ODA organizations of Donor countries	
USAID	International aid agency under the supervision of the U.S. Department of State
GTZ	German international technical corporation

Summary

This study, "The Study of Basic Approach for Financial Sector Development Assistance," was undertaken in order to improve JICA's effectiveness and efficiency in providing technical assistance to the financial sectors of developing countries. By learning about the current state of the financial sector at home and abroad, we hoped to arrive at ideas and concepts that would help in formulating JICA's future direction of development assistance in this sector, basing our judgments on JICA's previous experience in the field. Our principal objective was to provide the JICA staff with a deeper understanding of this important subject.

The financial system has two main functions: that of payment settlement, and that of financial intermediation. The financial sector comprises a diverse range of elements, ranging from the macro-finance policies which form the financial framework of a country (including financial policies in the narrow sense such as interest rate controls, foreign currency policy and capital flow controls, framework design for the banking system, and development policies for stocks and bonds markets and other elements of the financial market) to the improvement of systems governing the operation and management of financial institutions and markets, the development of credit analysis capability and other aspects of capacity by financial institutions, and the enhancement of legal, accounting, auditing, and financial information systems as they relate to financial transactions. Financial functions are fulfilled through a complex intertwining of these and other elements.

Real economic activity (the real sector) and its financial aspect (the financial sector) can be likened to the two sides of a coin. Development issues in the financial sector and in the real sector inevitably influence each other. The development of a country's financial sector is closely related to that country's economic development, as it not only facilitates economic and industrial activities, but, in poor and developing countries, helps to reduce poverty by providing better access to financial services.

Although the financial sector can play an important role in economic development and poverty reduction, its development tends to be laggard in the developing countries. This is mainly because development requires a professional knowledge base covering a wide range of areas – something rare in countries which are plagued by a scarcity of domestic capital and must rely heavily on ODA and other sources of external funds.

For this reason, technical assistance in the financial sector is all the more vital for developing countries. Multilateral development finance institutions, such as the World Bank (WB) and International Monetary Fund (IMF), as well as Western donor countries have a major presence in this field. By following the situation around the globe, we can identify three current trends: 1) an emphasis on poverty reduction, 2) a direction of increasing coordinated assistance, and 3) a greater reliance on "program" type assistance (i.e. aid intended to support the development and

implementation of policies and systems).

Japan provides financial sector assistance to developing countries through a variety of public organizations. Japanese assistance is characterized by hands-on human resource development, institutional capacity building and a relatively large number of activities concerning public financial institutions. On the other hand, there has not been enough systematic cooperation and coordination among the various organizations involved. In addition, Japan is very weak in the program type of assistance in this sector.

While not the oldest of Japan's assistance organizations, JICA has worked in the most diverse range of activities. Its positive involvement in this sector was prompted by two events in the 1990s: the transition of formerly communist countries into market-oriented economies beginning in the early part of the decade, and the outbreak of the Asian financial and currency crisis from 1997 through 1998. Up to now, a comparatively large number of activities have been conducted as part of "comprehensive policy assistance" projects covering macroeconomic policies, while typical financial sector projects are still limited. As its project experience grows, however, JICA is nearing the stage at which it can approach the development issues in this sector with a more solid range of capabilities.

The financial sector fulfills its functions on the basis of close, mutually influential relationships among the various elements mentioned above. None of these elements remains static once its function is complete, but is instead continuously upgraded while maintaining a dynamic interaction with other elements in the sector. In light of this, we have but one Principal Goal when providing technical assistance to the financial sectors of developing countries: to improve, stabilize and enhance the financial systems of the recipient nations. This overall Development Strategy Goal involves building financial systems from the basic stages, improving their stability by reducing vulnerability intrinsic to the systems, and making them more sophisticated as social systems.

There are four Intermediate Goals, each of which is categorized according to the nature of the development issues concerned. Each Intermediate Goal takes a different view of the various issues facing the developing countries.

1) Intermediate Goal 1: Creating a fundamental framework for the design and building of financial systems.
2) Intermediate Goal 2: Building financial institutions as the main players in financial systems (e.g. private commercial banks, public financial institutions, other financial institutions).
3) Intermediate Goal 3: Building capital markets and other financial markets which can be expected to develop along with the economy.
4) Intermediate Goal 4: Building a broad range of financial infrastructures that provide a solid foundation for the development of financial systems, including legal, accounting, auditing, and information services.

For each of the Intermediate Goals, the main target groups in the developing countries are the responsible government ministries, the central bank, and public and private financial institutions and other market participants. It is wise to be flexible here as development issues can change in accordance with economic development.

Developing countries can be categorized according to levels of economic development. The three levels we are concerned with are 1) the least less-developed countries (LLDCs); 2) less developed countries (LDCs); and 3) emerging countries. It is important to have an accurate grasp of the situation in each assisted country. Some generalizations, however, can be made for these countries based on levels of economic development. A rough summarization of the situation, including priority issues, is offered below, and may be useful for further analysis.

1) Least Less-Developed Countries (LLDCs)

Most LLDCs are still at the initial stage of constructing domestic financial systems. Due to the low credibility of the national currency and banking systems, only a small portion of domestic savings goes to formal financial institutions such as private banks, and people are more dependent on informal sources of finance. Therefore, the creation and stabilization of basic financial systems is of utmost importance. So as to win the confidence of the people towards formal financial systems, this should take the form of indirect financial systems with deposit-taking financial institutions as the main players. As part of this effort to formalize currently informal finances, microfinance should be introduced and developed as a priority issue.

2) Less Developed Countries (LDCs)

Countries at this stage of economic development have established basic financial systems in which banks play a pivotal role. Indirect financial systems in the LDCs may nevertheless involve many aspects which need to be improved if the system is to be raised to a higher level of sophistication, addressing these issues should be a priority. In addition, direct financial systems such as stocks and bonds markets generally start to develop at this stage of economic development. These need to be encouraged to promote their sound development.

3) Emerging countries

In general, emerging countries have financial systems in which indirect financial institutions play a central role to a nearly satisfactory level. Priority issues at this stage will be to assist in acquiring higher-level expertise such as in project finance (in indirect financial systems) and in the further development of financial markets (in direct financial systems).

JICA's listed project activities up to now, apart from traineeship programs (i.e. acceptance of trainees), are mainly categorized under Intermediate Goals 1 and 2, partly because many have been conducted as part of the organization's comprehensive policy assistance. Projects involving Intermediate Goals 3 and 4, however, are rare. The following are the ideas and concepts for JICA's future course in providing development assistance in the financial sector, grouped according to each Intermediate Goal.

1) Intermediate Goal 1: Implementation of appropriate macro-finance policies

This field involves assisting in the drafting and building of a fundamental framework for the financial systems of the targeted developing country. The main target countries will be LLDCs and LDCs. The number of projects that can be handled will be limited, since this work requires a vast commitment. However, this field is representative for the conduct of the program-type projects which have become the current trend in the international assistance community. Therefore, Japan needs to make a positive effort in this field, and JICA, as Japan's main assistance agency, needs to serve as a coordinator among the related organizations meeting this challenge.

2) Intermediate Goal 2: Improvement, stabilization and enhancement of financial institutions

This field involves strengthening financial systems through the improvement of the systemic details of financial institutions, the capacity development of which is fundamental to a nation's financial systems. The target countries can be in all three developing stages: LLDCs, LDCs and emerging countries. The potential for project formation is the broadest because of the number and variety of institutions and development issues in this category. In addition, from a content-wise perspective, this field is suitable for JICA as well as for Japan since it offers an arena for JICA's capacity development skills and Japan's abundant experience in the area, including the hands-on type of approach. This field will be the main area for JICA's activity in the financial sector.

3) Intermediate Goal 3: Development of financial markets

Since the target countries are limited to LDCs and emerging countries, and owing to the limited variety of financial markets, fewer projects will be conducted under Intermediate Goal 3 than under Goal 2. In practical terms, there are not many kinds of financial markets. Nevertheless, since JICA has little experience in assisting in projects in this area, it is essential to always be aware of priority issues, taking into consideration the importance of coordinating assistance activities with other related organizations.

4) Intermediate Goal 4: Development of financial sector infrastructures

The targets here can be all developing countries – LLDCs, LDCs and emerging countries – at various levels of economic development. The contents, which include legal systems, accounting and auditing systems, statistics, information technology and computer systems, directly or indirectly support the development of the financial sector as covered under Intermediate Goals 1-3. This field offers great potential for the formation of projects.

JICA is strengthening its ability to address the development issues in this sector. Below are the points which it needs to keep in mind as a basic stance.

1) JICA is the main technical assistance agency in Japan.
2) JICA has a strong point in its ability to conduct technical assistance activities in a variety of fields which are outside the financial sector but can benefit JICA's activities in the financial sector.
3) JICA should take a steady approach in strengthening its capacity.

Among JICA's internal issues, the following should be the first to be addressed.

1) Further sorting and analysis of JICA's past activities in this sector and related fields.
2) Further research on means of providing assistance that corresponds to specific development issues.
3) Further examination of issues related to project preparation.

In addition, JICA needs to do the following to see that better results are obtained from Japanese assistance to developing countries.

1) Give higher priority to financial sector assistance in Japan's individual Country Assistance Programs.
2) Enable more systematic implementation of Japan's financial sector development assistance.
3) Strengthen coordination with other international aid agencies and donor countries.

(Note: All charts and tables in this report, except for ones with data sources mentioned, are wholly produced by the author, the Japan Economic Research Institute.)

About "Development Objectives Chart on Financial Sector"

JICA's "Development Objectives Chart on Financial Sector" has one Principal Goal: the improvement, stabilization and enhancement of financial systems. This is a comprehensive and integrated goal and is set as the overall objective of JICA's technical assistance for developing countries.

Four Intermediate Goals, each of which comprises practical objectives that accord with the nature of development issues, are set as components of the Principal Goal. Each Intermediate Goal takes a different point of view toward development issues in developing countries

1) Intermediate Goal 1: Creating a fundamental framework for the design and building of financial systems.
2) Intermediate Goal 2: Building financial institutions as the main players in financial systems (e.g. private commercial banks, public financial institutions, other financial institutions).
3) Intermediate Goal 3: Building capital markets and other financial markets which can be expected to develop along with the economy.
4) Intermediate Goal 4: Building a broad range of financial infrastructures that provide a solid foundation for the development of financial systems, including legal, accounting, auditing, and information services.

While financial sector development issues are categorized according to these main perspectives, there remain many cases in which we find multiple perspectives in the same issue. In cases like these, we need to be flexible in selecting an Intermediate Goal category based on the perspective chosen. It is also important to remember that individual development issues can have various causes and characteristics, and therefore require a flexible approach when classifying them into Intermediate Goals.

“Development Objectives Chart on Financial Sector”

〔Development Strategy Goal (overall goal) : Improvement, Stabilization & Enhancement of Financial Systems〕

〔 Intermediate Goal 1: Appropriate macro-finance policy 〕

- ○capacity building of dealing with macro-frameworks of financial system
  - ･formation of line ministries responsible for financial policies
  - ･drawing up of a broad framework of financial policies
  - ･control over financial market liberalization & opening-up
  - ･control over foreign exchange & cross-boarder capital movement

  (targeted : Ministry of Finance, Cabinet Office, Ministry of Economic Planning, etc.)
- ○capacity building of execution of financial policies (in a narrow sense)

  (targeted : Ministry of Finance, Central Bank)
- ○strengthening of central bank functions & policy execution capability

  (targeted : Central Bank)

〔 Intermediate Goal 2: Improvement, stabilization & enhancement of financial institutions 〕

(Public & private financial institutions, etc.)

《 Emerging financial system 》

- ○formalization of informal finance

  (project example : savings accumulation initiative, micro-finance)

  (targeted : Government, Central bank, Micro-finance institutions, etc.)
- ○separation of finance from fiscal policy

  (project example : establishment of state-owned banks, transformation of state-owned financial functions into financial institutions)

  (targeted : Government, Central bank, Public financial institutions, etc.)
- ○formation & privatization of state-owned banks

  (project example : capacity building and privatization of state-owned banks)

  (targeted : Government, Central bank, State-owned banks, etc.)

《 Development of financial institutions as foundation of financial system 》

◎formation of regulations & measures for financial institutions to follow /improvement of prudential policy

- ○capacity improvement of dealing with related issues for financial system

  (issues : corporate governance, control of competition (control of new entry, control of interest rate, etc.), balance sheet regulation (regulation of capital adequacy ratio & single borrower imitation, etc.), disclosure of corporate information, asset self-assessment, inspection & monitoring of financial institutions, restrictions on foreign investment, money laundering, etc.)

  (project example : capacity building of dealing with individual policies, regulations and measures in the field of formation, function improvement, auditing & inspection of financial institutions)

  (targeted : Ministry of Finance, Central bank, etc.)

  (project example : capacity building of individual financial institutions)

  (targeted : individual financial institutions)

◎improvement of payment settlement systems

- ○establishment & improvement of payment settlement systems

◎establishment of safety net systems

- ○establishment & improvement of safety net systems such as deposit insurance system

◎restructuring of financial sector

- ○support for restructuring of (damaged) financial sector

《 Development of public financial institutions, etc. 》

- ○development finance institutions, etc.
- ○trade finance institutions, etc.
- ○SME finance institutions, etc.
- ○micro-finance institutions, etc.
- ○mortgage finance institutions, etc.
- ○other social & economic policy-related finance institutions

  (project example : capacity building of individual public financial institution)

  (targeted : individual public financial institution, etc.)

《 Corporate governance, corporate management, credit analysis capability, banking operation capability 》

○institutional capacity building / improvement of corporate governance as financial institution, corporate management including ALM, credit analysis of borrower & project, individual banking operations such as foreign exchange & customer relationship
(project example : capacity building of corporate governance & management including ALM etc., capacity strengthening of credit analysis of client & project)
(targeted : private & public financial institutions, government, Central bank)

(Other financial institutions, etc.)
Security firms, Life insurance companies, Casualty insurance companies, Leasing companies, various funds (Venture capital, Private equity fund, etc.) etc.

○capacity building of dealing with frameworks for categorized financial institutions to operate within

○improvement of operation capability

○formation of regulations & measures for financial markets to develop soundly
(project example : capacity improvement of dealing with individual policies, regulations & measures in the field of formation, function improvement, auditing & inspection of the other financial institutions)
(targeted : Ministry of Finance, Central bank, etc.)
(project example : capacity building of individual financial institution in this category)
(targeted : individual financial institution)

〔 Intermediate Goal 3: Development of financial markets 〕

○short-term money market (inter-bank markets such as call or bill discount market, open markets such as bond repo market)

○capital market (equity market, bond market)

○credit market (including loan-trading market, securitized market)

○foreign exchange market

○commodity market

○derivatives market

○proper dealing with various fund activities
(project example : capacity improvement of dealing with individual policies, regulations & measures in the field of formation, function improvement, monitoring & supervising of various financial markets)
(targeted : Ministry of Finance, Other Line Ministries, Central bank, Stock Exchange, various business associations, etc.)

〔 Intermediate Goal 4: Improvement of financial sector infrastructures 〕

○improvement of laws & regulations directly & indirectly related to financial transactions, institutions & markets
(Banking law, Central bank law, Securities exchange law, Commercial code, Company law, Tax law, Bankruptcy-related laws, etc.)
(project example : support for sophistication of related legal systems)
(targeted : Ministry of Finance, Ministry of Justice, Central bank, etc.)

○establishment of financial accounting system & auditing system
(including auditing of financial institutions, public sector accounting standards, accounting for external assistance)
(project example : support for establishment & improvement of corporate accounting standards & system, and auditing system)
(targeted : Ministry of Finance, Board of Audit (Government Accounting Office), Association of Auditors, etc.)

○more enhanced utilization of financial sector information
(financial statistics, financial information system, credit-related information such as credit rating, etc.)
(project example : support for more enhanced usage of financial statistics, credit information system, etc.)
(targeted : Ministry of Finance, Central bank, business associations, etc.)

Chapter 1 Financial Sector Overview

1-1. Current state of financial sector

(1) Fundamental functions of financial systems

The fundamental functions of financial institutions are fund settlement and financial intermediation. The former function contributes to support smoother economic activities among businesses and individuals by providing efficient payment settlement means such as computerized online fund settlement network among various financial institutions. If there were little efficient fund settlement function in a society, the smooth economic activities would be heavily hampered. It's important for a country to have an efficient and stable fund settlement system.

The latter function serves to promote meaningful economic activities such as starting a new business by providing savings and investment instruments and therewith intermediating funds needed by firms and other economic sectors. Especially, the essence of financial intermediation function is the ability to measure, analyze and manage various risks[1] including credit risk (i.e. the risk of default). As a matter of fact, financial institutions with a strong capacity for credit analysis are capable of providing funds to projects seemingly of low creditability based on a thorough risk analysis.

Development of a country's economy and industry requires a well-functioning financial sector. As a general rule, the higher the credibility of a country's financial sector, the more the funds that can be mobilized (through savings, etc.) and made available for the country's economic and industrial development. Real economic activity (real sector) and its financial aspect (financial sector) are the two sides of the same coin and therefore financial development crucially affects the speed of economic development.

(2) Significance of financial sector development in developing countries

Financial sector development can enhance greatly the urgent need of developing countries to develop their economy and therewith reduce poverty and improve human security. In other words, financial sector provides an important foundation for economic and industrial development, which will supposedly reduce poverty and raise national income.

At the same time, it is often the case in many developing countries that not all people can enjoy the financial services such as deposits, loans and fund remittance. Especially, the poorest group has the least access to financial services, the lack of which has impeded them gaining financial control over their own lives. It is important, therefore, to enhance financial sector development and therewith improve access to financial services for the poor. Since the poor are the most severely

---

[1] In addition to credit risk, there are interest rate risk (risk of negative gap between borrowing rate (higher) and lending rate (lower)), liquidity risk (risk of negative cash-flow between repayment of borrowing money (earlier) and collecting of lending money(later)) and so on.

affected in the society by economic crises such as the case in the Asian Financial/Currency Crisis of 1997-1998, it is important to enhance resilient power of financial sector through its development including improvement of various safety-net arrangement, with resulting in the lowering magnitude of the negative impact of financial crises on the poor.

(3) Understanding the financial sector as a whole

Diversity of financial sector

Financial sector covers a diverse range of elements, including 1) financial policies in the narrow sense such as interest rate policies and currency controls; 2) foreign currency policy and capital flow controls; 3) financial framework planning that defines the division of labor between the government and the central bank and the structure of financial system; 4) macro finance policies, including financial market (e.g. stocks and bonds market) enhancement policies, that provides important basis for the development of the country's financial system; 5) enactment of legislations regarding the operation and management of financial institutions and markets; 6) capacity building of financial institutions including the development of credit analysis capacity; 7) enactment of laws concerning financial transactions, etc.; and 8) financial information and statistics regarding corporate accounting, auditing and other financial systems.

Foreign relations

A country's macroeconomic policies are divided broadly into two categories (fiscal policy and financial policy), which are both closely interrelated to each other. For instance, the volume of government bonds issued will partly decide the scale of national fiscal budget and at the same time can greatly affect financial demand and supply situation of one country. If a huge amount of government bonds is issued, it will make demand for saving tighter and interest rate higher. This case shows that the amount of treasury liability, which is an important element of a fiscal management, will inevitably have a financial implication.

In addition to this, especially in developing countries, with their scarce capital, capital inflows such as ODA will come to be not only a fiscal matter but also a financial one as they impact on their financial situation. Therefore, in developing countries where economic development depends largely on capitals from abroad, matters such as capital flow control policies and foreign exchange management, which have direct impact on cross-border capital flows, are also very important for the financial sector management.

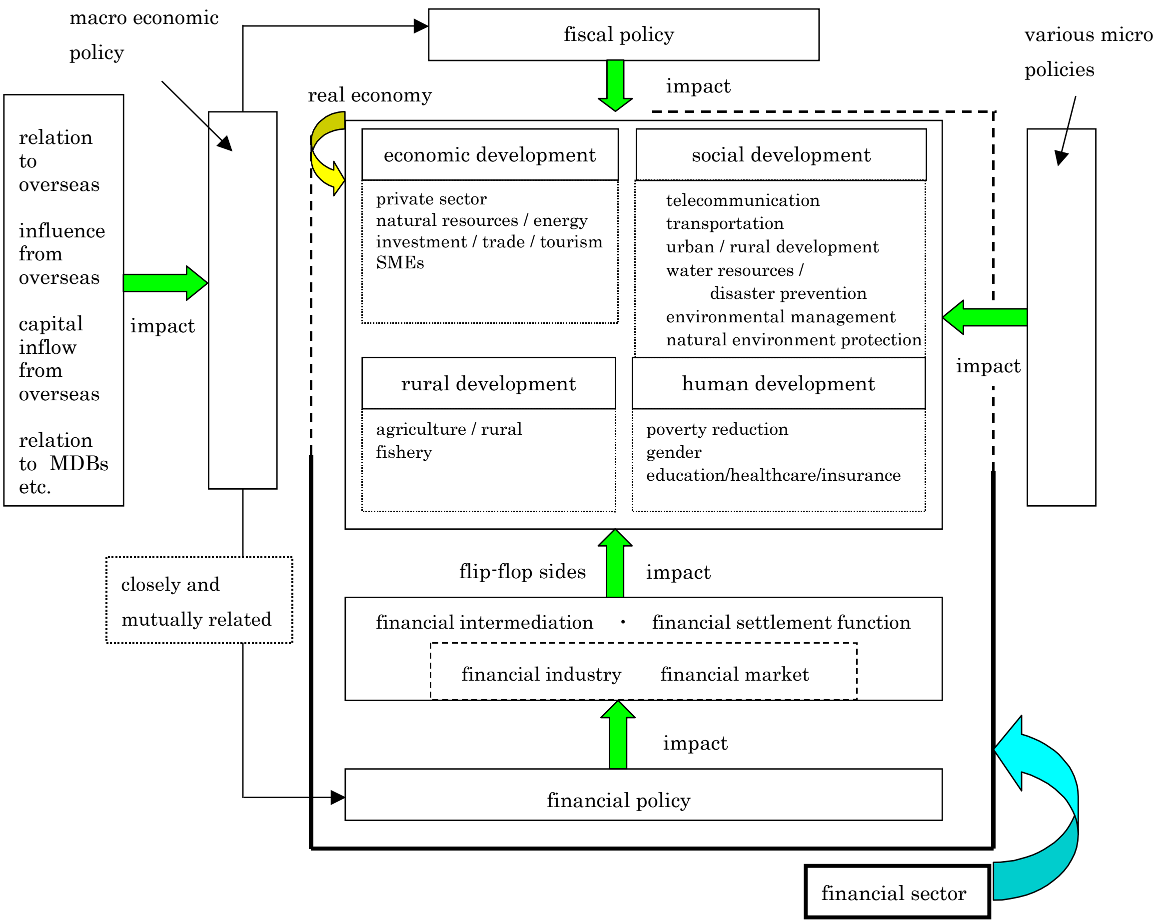
Financial sector is also affected by various other factors including 1) financial trends abroad; 2) openness of domestic financial markets to foreign capitals and businesses; and 3) especially for developing countries, policies of international aid agencies such as the World Bank (WB) and International Monetary Fund (IMF), both of which are known as the multilateral development finance institutions(MDFIs).

Diverse range of entities and organizations involved in financial sector

The supply-side participants of the financial sector, who design the financial system or provide financial services, consist of a wide range of organizations including central government ministries (such as MOF), central bank, public financial institutions, private sector financial institutions, security firms, non-bank financial institutions, NPOs (i.e. in case of microfinance etc.), stock exchanges, auditing firms and rating agencies.

The demand-side participants of the financial sector (i.e. clientele) comprise individuals, companies and governments, who actually conduct economic activities. These individuals and organizations are the ones who represent the real sector of the economy. Since the real and financial sectors are the two sides of the same coin, it is always important to discuss the financial sector components of real-sector development issues.

Understanding the financial sector as a whole



The above chart is to show how to understand the whole picture of the financial sector and related fields. The macro-economic policy of developing countries, which is broadly composed of both fiscal and financial policies and is under strong influences from abroad, is giving impacts on real sectors such as economic and social activities of companies and individuals through each policy routes, with both policies mutually reinforcing as well as interlinking with micro-policies such as industry policy and social development policy. In real sectors, there are many things to be approached like economic development, social development, rural development, human development and so on. While most of projects in financial sector are targeted for financial policy, financial industries, financial markets, and so on as shown in the table of "Systematic Approach to Development Projects in Financial Sector" (pages 10-11), they inevitably have implications on every field of real sectors because real sector and financial sector can be regarded as double sides of a coin as noted before.

(4) Importance of financial sector development assistance

Despite the fact that financial sector development is beneficial for economic development, developing countries tend to be laggard in elaborating policies to enhance the financial sector. This can be attributed to the following factors:

1) Financial sector has to mobilize funds for on-lending, but economically less developed countries tend to have fewer capitals within the country that must be available for financial intermediation.
2) Financial sector requires a complex foundation of business and policy systems including laws and regulations as well as a high level of technical expertise.
3) Since developing countries are limited in various resources including human resources, they tend to focus on real sector development policies such as export promotion policy. This causes delays in the implementation of financial sector development policies requiring complex and professional knowledge.

Despite all the difficulties listed above, considering the close relationship between economic growth and financial sector development, it is very important to provide financial sector development assistance for developing countries where economic development is still a high priority.

(5) Current state of financial sector in developing countries

1) Major sources of finance

The current state of financial sector in developing countries can be roughly categorized according to their level of economic development. Major sources of finance available for the construction of infrastructure facilities, therefore, shift according to the level of economic development from "grants" at early stages of economic development to "concessional loans (with lower interest rates and longer maturity & grace period)" at intermediate stages and finally to "private funds" at later stages of economic development.

2) Shift from informal finance to formal finance

Financial systems shift from informal to formal systems in line with economic development. At earlier stages of economic development, informal finance (i.e. borrowing from informal sources such as family relatives and friends) plays an important role than formal finance (i.e. borrowing from formal sources such as private commercial banks). At later stages of economic development as the financial systems develop, formal finance will become more important than informal finance.

At the same time, as the amount of money required by an economy becomes larger according to the level of economic development, direct finance (i.e. borrowing directly from investors through the stocks and bonds markets) becomes important along with indirect finance (i.e. borrowing from financial institutions such as private commercial banks).

One of the differences between indirect and direct finance is the role of financial institutions. In the indirect finance, financial institutions play an important role as a financial go-between, but in the direct finance where borrowers and lenders directly interact, financial institutions merely play a supplementary role. In either case, nevertheless, financial institutions are required to have the capabilities to measure and manage all sorts of risks that arise during financial intermediation, which requires a constant effort of capacity building.

3) Levels of economic development and transitional countries

Developing countries can be categorized according to their level of economic development: (i) the least less-developed countries (LLDCs); (ii) less developed countries (LDCs); and (iii) emerging countries. (For classifications, please see 3-1-2.)

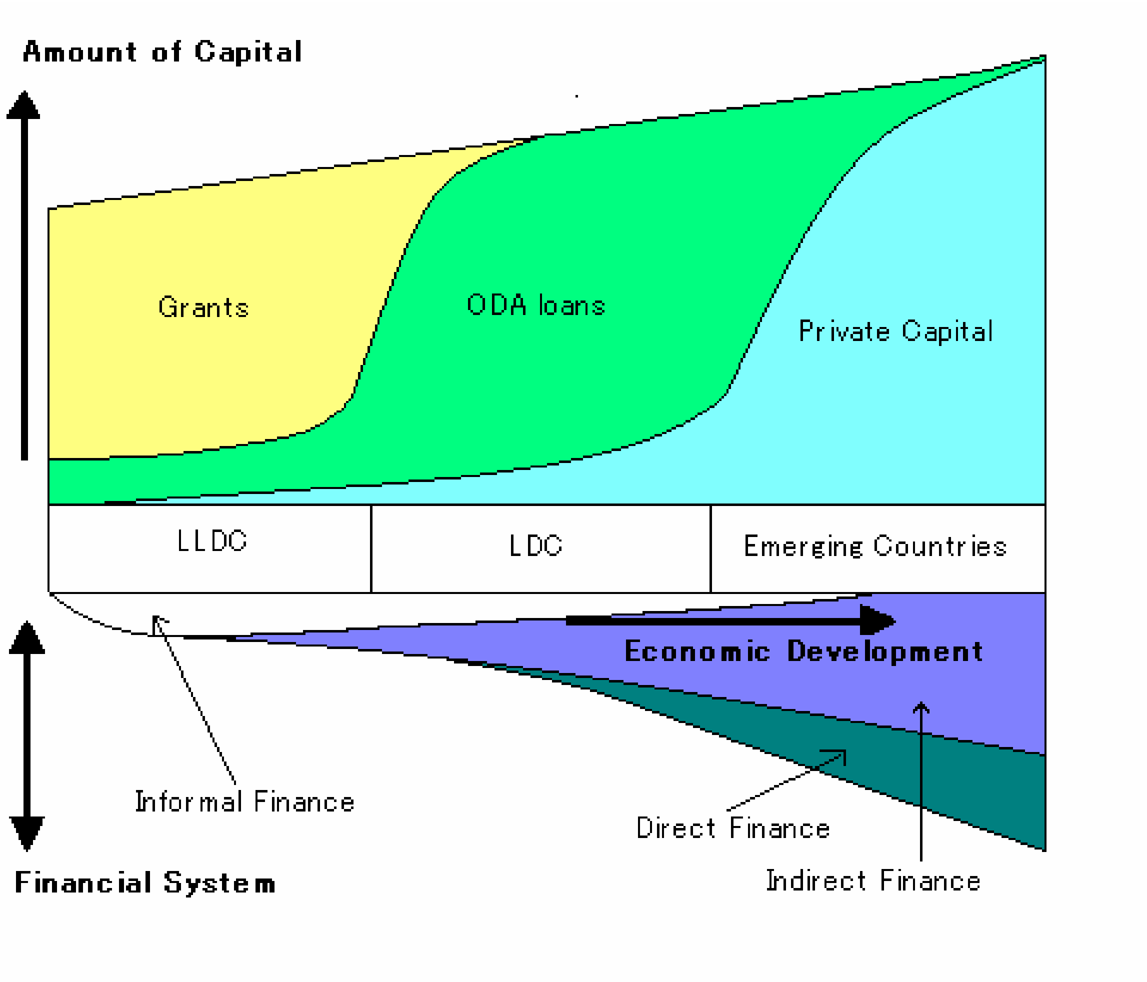
Although, the state of financial sector varies depending on their levels of economic development, there is some similarity among the countries at the same level of economic development. For instance, the governments of the LLDCs tend to be less capable of implementing macro finance policies, whereas governments of emerging countries like Malaysia are more enthusiastic in developing stock and bond markets (i.e. direct finance) along with the development of indirect finance such as bank loans.

In many of the former Communist countries, the change in economic regimes from a centrally planned economy to a market-oriented economy has been a big challenge to their financial sector development. Especially in the LDCs such as Vietnam, it is often the case that: (i) finance is not established as a separated entity independent from financial policy tool. The typical example is a directed loan in which the government orders banks to provide loans to government-designated areas without paying any attention to banks' financial judgments. It is therefore necessary for finance to become a truly independent function separated from fiscal policies and measures. As well, (ii) main clients of state-owned banks (i.e. major financial institution of such countries) are likely to be state-owned enterprises (SOEs), who are often in financially unhealthy conditions because of their poor company management (including liability management) with the result of accumulated non-performing loans on their balance sheets. In order to make the banks more financially sound, the improvement of SOE management is almost inevitably indispensable.

As above, some categorization can be helpful for us to grasp the financial sector picture quickly.

By categorizing the situations of financial sector in developing countries according to their level of economic development which are mentioned above, we are able to create a picture chart of financial sector development in developing countries as below.

Financial sector development in developing countries



1-2. International trends in financial sector development assistance

(1) Current trend of international development assistance

The current trend of international development assistance comprises of the following three factors, which apply to all areas of development assistance including the financial sector.

1) Emphasis on poverty reduction

Since the accomplishment of the Millennium Development Goals (MDGs) has been the main concern of the international community, poverty reduction has also been a prominent issue in the financial sector development assistance. (See 1-1 (2) for more details)

For example, many international aid agencies and donor countries have been providing technical assistances in such financial sectors as micro-finance that have a direct positive impact on poverty reduction. On the other hand, the governments of developing countries have also been placing financial sector development in an important part of their comprehensive poverty reduction strategy.

2) More importance on program-type assistance

In recent years, program-type assistance (i.e. a type of aid that aims at supporting the development and implementation of policies and systems) has been gaining more importance compared to the conventional project-type aid such as for a specific physical infrastructure development.

In the area of financial sector development assistance, increasing number of international aid agencies and donor countries have been providing support for policy implementation and institutional reforms in developing countries. Typical examples are the World Bank (WB)'s Structural Adjustment Loans, which was launched in the 1980s for financial sector reforms in developing countries, and its Poverty Reduction Support Credit (PRSC), which is a lending instrument launched in the late 1990s to support the implementation of Poverty Reduction Strategy Papers (PRSP)[2] that are prepared by developing member countries and that included financial sector reforms. In recent years, more and more donor countries have started to follow suit.

At present, 31% (2003) of WB's total loans and 14% (2002) of the total U.S. ODA are devoted to program-type assistance, whereas in Japan, such program-type assistance accounts for a mere 0.4% of the total ODA loans[3].

3) Trend toward aid coordination

There has been an increasing effort made by international aid agencies and donor governments to

[2] PRSP is a long-term comprehensive strategic plan or program prepared by developing countries by themselves which object is to achieve poverty reduction practically. International aid communities including the WB and IMF are helping them to produce and conduct PRSP.

[3] Nikkei Newspaper article by Japan Bank for International Cooperation (Japanese): "Seminar---ODA in the global competition period"(October 2005)

cooperate and coordinate among each other in the conduct of their respective development assistance programs. In March 2005, international aid agencies and other related parties have endorsed the Paris Declaration on Aid Effectiveness, in which many targets were set for 2010 including the target to conduct 40% of all research projects by multi-collaboration.

At the same time, increasing numbers of development assistance projects are currently conducted in close partnership with developing countries. One of the successful cases is that of Vietnam. The Consultative Group (CG) Meeting for Vietnam, which comprises of the Government of Vietnam, aid agencies and donor countries, has been held on a regular basis to enhance collaboration and coordination among related parties on the implementation of financial reforms and other sectoral reforms. (See Appendix 2-(3) for TA project information on the CG Report for Vietnam)

In addition to this, Appendix 2-(1) contains information on the state of financial sector development assistance of major international aid agencies and donor countries, which will give us some insight on international trend of financial sector development assistance.

(2) World Bank/IMF and their financial sector development assistance

The case of the World Bank (WB) offers us great guidance regarding the international trends in financial sector development assistance as the WB is regarded as the most influential institution in the financial sector assistance.

WB has allegedly started to take an interest in the financial sector development assistance through its experience in providing two-step loans (i.e. loans to intermediary financial institutions in developing countries for on-lending to end-users). In addition to this, the following three incidences in later years had motivated WB to get more involved in the financial sector development.

The first incidence was the emergence of Asian NIES ("newly industrializing economies") in the latter half of 1980s that had caused a huge amount of capital flow into these economies, which had a great impact on macro economy. The second incidence was the former Communist countries' transition to a market economy in early 1990s and their requests for assistance. The third incidence was the occurrence of the Asian Financial Currency Crisis of 1997-1998 that required emergency treatments.

WB is currently providing financial sector development assistance to individual countries for the steady development and improvement of the soundness of financial sector, based upon lessons through the Asian Financial/Currency Crisis.

While the WB is mainly in charge of responding to the demand for medium and long-term development fund, the IMF (International Monetary Fund) is mainly responsible for assistance in the field of settlement between countries and short-term lending. During the Asian Financial/Currency crisis, the IMF was the centerpiece of the international financial institutions in planning and endorsing prescription measures on Asian countries exposed to the crisis. In 1999, just one year after the crisis, the IMF in joint-collaboration with the WB started the initiative called the Financial Sector Assessment Program (FSAP), which studies and grasps the financial sector situation of countries. These collaborative activities by the IMF/WB have been continued up until now. Analytical results of the FSAP have been providing a common platform for 1) the WB's development work, 2) the IMF's surveillance over financial issues and 3) the financial sector technical assistance activities of both institutions. The FSAP analytical results often contain the points to be improved in the financial sector. As such, the FSAP information is quite beneficial for all concerned people involved in assistance to the financial sector.

(For FSAP, please see "World Bank Group" of Appendix 2-(1))

(3) International development finance institutions and their financial sector development assistance

International development finance institutions (IDFIs) mainly provide loans to developing countries. And they usually provide technical assistances in relation to these lending activities. For instance, the Asian Development Bank (ADB), which discloses the amount of technical assistance by sector, has invested in "finance sector" (as defined in a narrow sense) 5-10% of the total TA grants between 1997 and 2004, and 20% in 1998. On the other hand, the European Bank for Reconstruction and Development (EBRD), which allegedly provides funds and technical assistances together, has invested in financial sector about 13% of the total TA grants in 1997.

As a reference, the percentage of IDFIs's financial sector commitments in the total loans in the post-Asian Crisis years lingered around 10%, after a temporarly increase during the Asian Financial/Currency Crisis of 1997-1998. (Note that the figures of IDFIs's financial sector commitments do not necessarily correspondents to the amount of TA provided and the level of financial sector investments also vary among IDFIs)

The above reveals the fact that IDFIs have constantly committed a certain weight of their activities to the financial sector (defined in a narrow sense). (See Appendix 2-(2) for details)

1-3. Situation of technical assistance by Japan

(1) Technical assistance agencies in Japan

The following are the list of major Japanese aid agencies that conduct financial sector technical assistances. They hold regular Technical Assistance meetings to facilitate information exchanges among the members.

Japan International Cooperation Agency (JICA)	Japan Bank for International Cooperation (JBIC)
Ministry of Finance (MOF)	Development Bank of Japan (DBJ)
National Tax College	National Life Finance Corporation (NLFC)
Financial Services Agency (FSA)	Agriculture Forestry and Fisheries Finance Corporation (AFC)
Bank of Japan (BOJ)	Tokyo Stock Exchange (TSE)
	Japan Center for International Finance (JCIF)

In the area of overseas technical assistance, JICA covers the widest and broadest range of fields among these members. Following JICA, MOF is also doing TA in a broad area covering from financial policy, national liability control to development of financial markets, policy-based finances and restructuring of the financial sector including settlement of non-performing loans. FSA mainly targets to policy-administrative sections in charge of security business and insurance business. BOJ chiefly focuses on the central banking function area. JBIC's main activities are centered on trade financial institutions. Other members conduct technical assistance in a relatively limited area of their respective operations. The table below provides a concise summary of main activities by each TA institution.

Sector	Sub-sector	Agency	Overview of technical assistances
Financial policy		JICA	Capacity building in financial sector policy making
		MOF& JCIF	Financial policy, development policy, external debt management, etc.
Financial supervision		JICA	Central bank system, central bank policy enhancement, etc.
		BOJ	Central bank functions and activities
Capital market		JICA	Capital market policy making; establishment of capital market systems; establishment of monitoring and supervision systems; establishment of stock and derivatives exchanges; etc.
		MOF	Financial market development
		FSA	Traineeships for securities administration; legal affairs related with securities; and insurance supervision and administration: etc.
Laws and regulations		JICA	Capacity building related to corporate accounting system; financial statistics; money laundering prevention; deposit insurance system; supervision of financial institutions; laws and regulations related to financial institutions; etc.
		MOF	Macroeconomic statistics, deposit insurance system, etc.
Capacity building of financial institutions	Development finance	JICA	Capacity development of development finance institutions
		DBJ	Development finance and credit analysis training
	Trade finance	JICA	Improvement of trade finance system
		JBIC	Trade finance training
	SME finance	JICA	Capacity building of SME finance institutions
		NLFC	Microfinance training
	Agriculture finance	AFC	Agriculture finance training
	Other	JICA	Bank management, credit analysis capacity building, fund settlement system, etc.
		MOF& JCIF	Policy-based finance improvement
Financial sector restructuring	Non-performing loans	MOF	Financial sector reform

In addition to the above, both MOF and BOJ are assisting the realization of the idea called the Asian Bond Market while JBIC is cooperating with them such assistances through the issuance of Asian currency-denominated bonds.

(2) Features of Japan's financial sector development assistance

As shown in the table above, Japan's overseas financial sector development assistance has been conducted by many agencies as a form of technical assistance (TA). However, generally speaking, not many of such TA projects have been conducted in cooperation or collaboration with other related agencies.

In Japan, there has been a division of responsibilities between JICA and JBIC, where the former took charge of technical assistance and the latter took charge of ODA loans, and there has not been enough systematic cooperation or collaboration between the two agencies until now.

JBIC is providing ODA two-step loans to various financial intermediary institutions in developing countries, although it does not seem to provide an extensive TA assistance in financial sector capacity building for these intermediary institutions. This is partly due to the fact that JBIC generally require collateral to secure its loans(i.e. a government guarantee of the developing country concerned).

At present, it is true that Japanese ODA activities are not duly appreciated by the international donor community. At the same time, in the conduct of technical assistance, Japan has taken more of a project-oriented approach (and therefore less program-oriented approach) in the past. A hands-on type approach of capacity development (E.g. human resources and institutions capacity building projects) has been the strong feature of Japan's technical assistance. As well, many public financial institutions in Japan have been involved in overseas technical assistances.

(3) JICA's approach to financial sector development assistance

JICA's activities in the financial sector up to 1980's were centered around the so-called information-providing activities such as 1) holding of training courses in Japan that introduce knowledge about Japanese financial policies and financial system to participants from developing countries, and 2) holding of seminars abroad by dispatching short-term experts in cooperation with Japanese economic governmental ministries and government-related agencies. In the past, JICA has intentionally avoided the activities to help developing countries in improving their financial policies and systems based on the understanding that such is very much an individual matter for each developing country.

However, the two incidents, in line with the global trend, made JICA get more involved in the assistance in the financial sector; the first one was the economic transition wave into market-oriented economy among former Communist countries, and the second was happening of the Asian

Financial/Currency Crisis in 1997 to 1998.

As many Western advanced countries had begun to increase their assistance to the transition of former Communist countries since early 1990's, Japan had also begun to consider the similar assistance as one of the prioritized fields, based on the understanding that the transition needs dramatic change of economic policy, economic system and institutional aspects. Accordingly, JICA began to give high priority to the assistance to transitional economies. The typical example of JICA's assistance to transitional economies was the so-called "Ishikawa-project" to Vietnam, which included a financial sector component.

Additionally, the occurrence of the Asian Financial/Currency Crisis had made international aid agencies and donor countries feel the strong necessity to overcome the vulnerability of economic system and institutions, especially that of the financial sector in developing countries, since such vulnerability turned out to be the cause of dramatic currency depreciation and the on-going economic depression. In response to the crisis, Japan quickly provided emergency assistance packages to damaged countries and afterwards has continued to support structural adjustment reform efforts in these countries, which are considered helpful for economic recovery over the medium to longer term.

As such activities are conducted at JICA, the need to accumulate the knowledge about the financial sector assistance and its practical know-how to deal with actual projects (i.e. from project-formation to execution, to afterwards evaluation) has been increasing. At the same time, in recent years, more complex and professional responses are required in response to increasing requests for taking more comprehensive approach to various tasks in the financial sector.

Chapter 2 Approaches to financial sector development assistance

2-1. Goals for financial sector development assistance

As mentioned in Chapter 1, financial sector development is closely related with economic development and therefore has a great positive impact on the poverty reduction and social economic development of developing countries. Nevertheless, the governments of less developed countries tend to be laggard in the financial sector development, since it requires high expertise as well as a good institutional basis for a broad range of subject fields. It is important, therefore, to provide financial sector development assistance to these less developed countries.

The Asian Financial/Currency Crisis was a good example that showed how a vulnerable and immature financial system is more prone to risks and how greatly the financial sector failure can affect a country's economic management and the daily lives of individual citizens.

Thus, even with an adequate amount of capital resources, it is always very important to take enough time to improve, stabilize and enhance the financial sector development of a country. Financial sector development assistance indeed requires a long-term perspective and strong commitments.

2-2. Effective approaches for financial sector development assistance

2-2-1. "Development Objectives Chart" of JICA

Development strategy goal and intermediate goals

According to the table of "Development Objectives Chart on Financial Sector" on pp 10 and 11, Development Strategy Goal (i.e. overall goal) for financial sector development assistance is set as "improvement, stabilization and enhancement of financial systems" that has four Intermediate Goals.

The "Improvement, stabilization and enhancement of financial systems" means building the financial systems from immature stage, increasing their level of stabilization by reducing vulnerability contained in the systems and making them more sophisticated as social systems. The progress of the overall goal will provide a solid foundation for further development of economy and industry that are closely related to the financial sector, which will also have direct and indirect impact on poverty reduction.

The overall goal is defined comprehensively as above based on the fact that the financial sector is sustained by various elements which are related to each other in multidirectional and compound dimensions and individually supporting the realization of the highest goal. As well, the three components of the overall goal, that is to say, "improvement", "stabilization" and "enhancement" are mutually and closely intertwined.

Financial sector development issues, especially those of specific areas, can be classified in many ways. For instance, development issues can be classified by policy-makers vs. policy targets (i.e. financial institutions); types of financial markets (i.e. short-term financial market, long-term financial market, capital market, etc.); types of financial intermediation (indirect finance, direct finance), forms of financial institutions (i.e. deposit-taking financial institutions, security firms, etc.); types of financial transactions (i.e. financial intermediary, investors, etc.); and types of development assistance issues (i.e. policy improvement, human resource development, institutional capacity building, etc.).

Since it is not easy to deal with all these varieties of fields under one category, the following four Intermediate Goals were set to deal with financial sector development issues from their respective perspectives, taking into consideration the broad range of factors mentioned above.

Intermediate goals and their concepts

Intermediate Goals, each categorized by nature of development issues, are set as a component of the highest goal. Each Intermediate Goal is categorized according to the following viewpoints:

1) Intermediate Goal 1: fundamental framework designing and building of financial systems;
2) Intermediate Goal 2: financial institutions as the main players of financial systems (e.g. private commercial banks, public financial institutions and the other financial institutions);
3) Intermediate Goal 3: financial markets such as capital market (expected to develop in accordance of economic development); and
4) Intermediate Goal 4: a broad range of financial infrastructures that provide a solid foundation for the development of financial systems, such as legal, accounting, auditing, information aspects.

Although all financial sector development issues are classified under either one of the four Intermediate Goals, some issues can also be classified under other Intermediate Goals, depending on the perspective for the project.

For instance, to make private sector inter-bank fund settlement easier via an online-settlement system provided by the central bank, classification of development issues can be as below:

1) If the project's priority is on the improvement of the settlement system of financial institutions, the project can be classified under Intermediate Goal 2;
2) If the project's priority is on the establishment of computer systems, the project can be classified under Intermediate Goal 4;
3) If the project's priority is on the improvement of ALM management (Asset Liability Management) of deposit-taking financial institutions, the project can be classified under Intermediate Goal 2;
4) If the project's priority is on the fund procurement of deposit-taking financial institutions, and when the issues concern the issuance of CDs, CPs and bank debentures, the project can be considered as one of the capital market development issues and therefore classified under Intermediate Goal 3.

It is obvious that financial sector development issues should be classified flexibly according to the main priority of their respective projects. As well, it is also necessary to take pluralistic approach to understand the nature and features of the individual development issues and therewith classify them into adequate Intermediate Goals.

Development Objectives Chart on Financial Sector (with JICA cases)

〔 Development Strategy Goal (overall goal) : Improvement, Stabilization & Enhancement of Financial Systems 〕

〔 Intermediate Goal 1: Appropriate macro-finance policy 〕

* capacity building of dealing with macro-frameworks of financial system
  - formation of line ministries responsible for financial policies
  - drawing up of a broad framework of financial policies
  - control over financial market liberalization & opening-up
  - control over foreign exchange & cross-boarder capital movement

  (JICA project example : ◎ capacity building of dealing with macro-frameworks of financial system)

* capacity building of execution of financial policies (in a narrow sense)

* strengthening of central bank functions & policy execution capability

  (JICA project example : ○ capacity building of central bank functions)

〔 Intermediate Goal 2: Improvement, stabilization & enhancement of financial institutions 〕

(Public & private financial institutions, etc.)

《 Emerging financial system 》

* formalization of informal finance
* separation of finance from fiscal policy
* formation & privatization of state-owned banks

《 Development of financial institutions as foundation of financial system 》

[formation of regulations & measures for financial institutions to follow /improvement of prudential policy]

* capacity improvement of dealing with related issues for financial system

  (issues : corporate governance, control of competition (control of new entry, control of interest rate, etc.), balance sheet regulation (regulation of capital adequacy ratio & single borrower imitation, etc.), disclosure of corporate information, asset self-assessment, inspection & monitoring of financial institutions, restrictions on foreign investment, money laundering, etc.)

  (JICA project example × assistance for disclosure system of financial institutions
  △ human resource development in auditing of financial institutions
  ○ assistance for anti-money laundering)

[improvement of payment settlement systems]

* establishment & improvement of payment settlement systems

  (JICA project example : assistance for settlement system)

[establishment of safety net systems]

* establishment & improvement of safety net systems such as deposit insurance system

  (JICA project example : ○ assistance for deposit insurance)

[restructuring of financial sector]

* support for restructuring of (damaged) financial sector

  (JICA project example : × assistance for restructuring master plan of financial institutions)

《 Development of public financial institutions, etc. 》

* development finance institutions, etc.
* trade finance institutions, etc.
* SME finance institutions, etc.
* micro-finance institutions, etc.
* mortgage finance institutions, etc.
* other social & economic policy-related finance institutions

  (JICA project example : assistance fo ◎ development finance institutions
  ○ trade finance institutions
  ◎ SMEs finance institutions
  ◎ rural finance institutions)

《 Corporate governance, corporate management, credit analysis capability,
banking operation capability 》
(JICA project example : ○ capacity building of financial institution's corporate management functions (including ALM) & staff's credit analysis ability)

* institutional capacity building / improvement of corporate governance as financial institution, corporate management including ALM, credit analysis of borrower & project, individual banking operations such as foreign exchange & customer relationship

(Other financial institutions, etc.)
Security firms, Life insurance companies, Casualty insurance companies, Leasing companies, various funds (Venture capital, Private equity fund, etc.) etc.

* capacity building of dealing with frameworks for categorized financial institutions to operate within
* improvement of operation capability
* formation of regulations & measures for financial markets to develop soundly

〔 Intermediate Goal 3: Development of financial markets 〕

* short-term money market (inter-bank markets such as call or bill discount market, open markets such as bond repo market)
* capital market (equity market, bond market)
(JICA project example : assistance for ○ policies & measures as to capital market
○ monitoring & supervising system of capital market
○ establishment of security exchanges & derivative markets
* credit market (including loan-trading market, securitized market)
* foreign exchange market
* commodity market
* derivatives market
* proper dealing with various fund activities

〔 Intermediate Goal 4: Improvement of financial sector infrastructures 〕

* improvement of laws & regulations directly & indirectly related to financial transactions, institutions & markets
(Banking law, Central bank law, Securities exchange law, Commercial code, Company law, Tax law, Bankruptcy-related laws, etc.)
(JICA project example : △ assistance for improvement of finance-related laws)
* establishment of financial accounting system & auditing system
(including auditing of financial institutions, public sector accounting standards, accounting for external assistance)
(JICA project example : ○ assistance for corporate accounting system)
* more enhanced utilization of financial sector information
(financial statistics, financial information system, credit-related information such as credit rating, etc.)
(JICA project example : ○ assistance for financial statistics)

note : JICA project example

◎ There are relatively many cases in JICA activities in the field of economic policy & financial assistance
○ There are cases in JICA activities in the field of economic policy & financial assistance
△ There are cases which are located as one component of JICA projects
× There are little cases in JICA activities

2-2-2. Effective approach to financial sector development assistance

Development Strategy Goal — Improvement, stabilization and enhancement of financial systems

Since a well-functioning financial sector is essential for the development of real economy, financial sector instability once it occurs will have a great negative impact on the economy. Therefore, Japan's overall goal for financial sector development assistance will be the "improvement, stabilization and enhancement of financial systems in developing countries."

Although ”financial system” is the interlocked complex functions that consist of a broad range of factors, in this Study, we will use the term to refer to the systems for financial transactions, supported by policies, laws and regulations concerning financial institutions and financial markets, financial administrative systems, financial practices and other financial frameworks. The term of “financial system” also means the institutional and organic aspects of the systems for the financial activities.

The substance of each development assistance may vary according to each country’s level of financial sector development, but the overall goal to improve, stabilize and enhance financial systems will be equally important to all developing countries at any stage of development.

Representative cases of JICA project-type activities are introduced for each Development Strategy Intermediate Goal below; although main cooperation project cases since 1995 are included in Appendix 1 (the numbers in the parenthesis corresponds to the numbers of the JICA project list in Appendix 1-(1) - 1 & 2).

Development Strategy Intermediate Goal 1: Appropriate macro-finance policy

Intermediate Goal 1 deals with macro-frameworks, reforms and policy execution of financial systems in developing countries. For example, reform of line ministries and the central bank who take charge of financial policies; drawing up of a broad framework of the financial system; strengthening of the central bank functions; controlling for the level of financial market liberalization and opening-up; execution of financial policies in a narrow sense including interest rate policy; and foreign exchange management and control of cross-border capital movement.

Financial policies, as well as fiscal policies, are considered as an important macro-economic policy measure. The establishment and reform of financial systems, therefore, comprises an important part of a series of macro-economic policies.

Financial and fiscal policies are closely interrelated to each other as mentioned in chapter 1. As well, the overall macro-economic stability is indispensable for effective financial policies. In order to appropriately implement macro-finance policies, therefore, it is important to understand the close relationship between financial policies and a series of macro-economic policies.

The main parties involved in the achievement of Intermediate Goal 1 are the line ministries and the central bank. Regarding the improvement of the central bank’s functions, it is more appropriate to classify the fundamental issues regarding the central bank (such as its roles, functions and authorities) under Intermediate Goal 1, while specific practical issues should be classified under Intermediate Goal 2.

Representative cases of JICA projects related to the Development Strategy Intermediate Goal 1 could be divided into the following three categories. All projects under these three categories were conducted as a part of “comprehensive policy assistance” which covers macro economic policy, fiscal/financial policy, industrial policy, agricultural policy, etc.

1. As a part of comprehensive policy assistance to a transitional economy, JICA made policy recommendations on establishment of financial policy/institutions. Representative example of such assistance is “Study on the Economic Development Policy in terms of Transition toward Market Oriented Economy in Vietnam” (1995/8/2001/3) [No.1-4]. More concretely, this project made recommendations on fund mobilization measures regarding the 5-year socio economic development plan; interest rate policy by the central bank; bank supervision; establishment of a sound policy-based finance; settlement of non-performing loans; and others for Vietnam’s transition from a mono bank system under a planned economy (where the central bank assumes function of a commercial bank as well as of fund distribution based on the government order) to a financial system under a market oriented economy (where the function of a commercial bank is separated from task of the central bank, national commercial banks are established and policy-based financial institutions are set up following separation of policy-based financing from commercial financing). Details of this project are included in Appendix 1-(2).

   Financial sector reform is an important theme in a comprehensive policy assistance, as shown in “Macroeconomic Policy Support for Social-Economic Development in the Lao PDR Phase 1-2” (2000/4-2005/3) [No. 20-21] and “the Japan-Myanmar Cooperation Programme for Structural Adjustment of the Myanmar Economy (2000/12-2003/8) [No.22] which were conducted following the successful project in Vietnam.

2. JICA conducted assistance in financial sector capacity building as well as macro-economic policy, as a part of economic policy assistance after the Asian Financial/Currency Crisis. Representative examples of such assistance are a series of economic policy assistance program for Indonesia (2002/2-currently underway) [No. 8-14]. More concretely, JICA conducted a comprehensive technical assistance (through the combination of development study, dispatch of experts, and acceptance of trainees in Japan) for the capacity building of the Central Bank of Indonesia (the counterpart) in order to effectively implement financial policy (management of foreign debts, bank supervision, etc.) and to prevent the recurrence of a currency crisis.

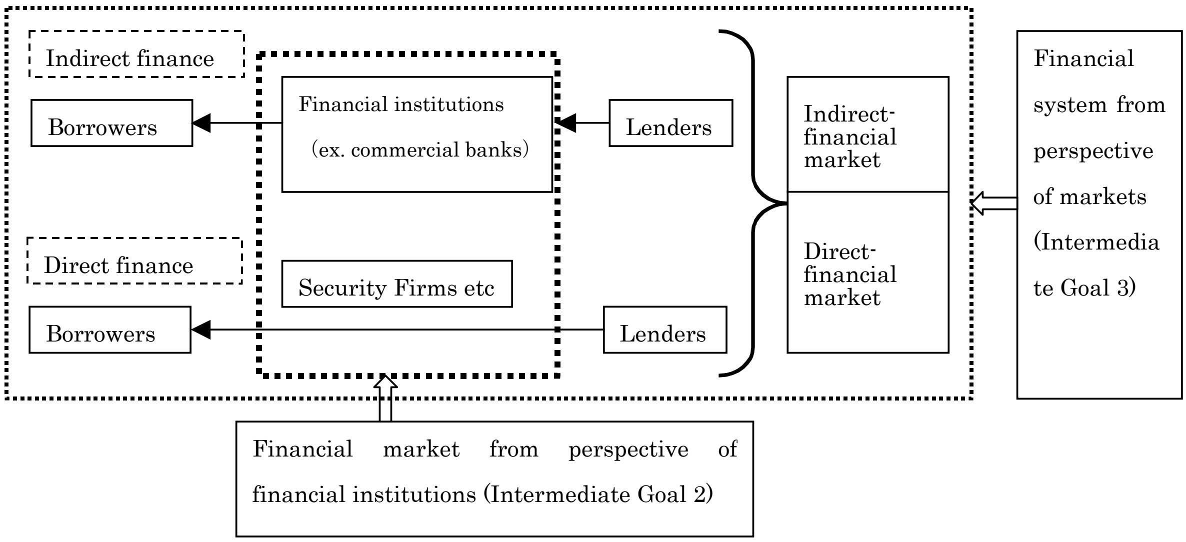
3. Other cases: These do not belong to the above-mentioned two categories. One example of such cases is development studies conducted for the comprehensive economic development assistance tor Latin American countries [No. 31-34]. However, this type of projects did not put much weight on financial sector assistance, as their main purpose was to promote export and private sector investment from foreign countries. The other example is “Project for Strengthening Fiscal and Monetary System in Kenya” (2005/4-2008/3) [No. 30]. This project was the first project in this field conducted for Kenya, an African country. Using technical

cooperation project scheme, this project was conducted to strengthen institutional capacity of the Kenyan Institute of Financial Studies that was established by the Kenyan government for financial sector experts (such as officers of the central bank, Ministry of Finance, etc.) The project is noteworthy as the first effort in the financial sector to assist a LLDC[4] whose financial system development is significantly underdeveloped.

Development Strategy Intermediate Goal 2: Improvement, stabilization and enhancement of financial institutions

Approaches to financial institutions and financial markets

Intermediate Goal 2 aims at improving, stabilizing and enhancing the functions of financial institutions, which play a central role in the financial systems. On the other hand, Intermediate Goal 3 in the following paragraph also aims at the improvement, stabilization and enhancement of financial markets which are also important components of the financial systems. The chart below shows the relationship between Intermediate Goal 2 (financial institutions) and Intermediate Goal 3 (financial markets). (Thin arrow lines indicate the flow of funds)



Financial institutions can be classified into the following two types: financial institutions that involve in indirect financing and play the role of intermediary between lenders and borrowers (E.g. deposit taking banks such as commercial banks); and those that play the role of finance arranger in direct financing where lenders and borrowers directly interact to each other through financial markets (e.g. security firms).

Intermediate Goal 2 aims at improving the above mentioned financial institution systems in order to construct, stabilize and enhance their payment settlement functions and financial intermediation

---

[4] Under the classification by the World Bank, LLDC is described as a country with GNI (gross national income) per capita equal to and under US$825.

functions.

On the other hand, Intermediate Goal 3 aims at improving, stabilizing and enhancing the financial market systems, which comprise not only financial institutions mentioned above, but also other financial sector players such as investors (lenders) and companies and governments (end-borrowers).

Classification of financial institutions under Intermediate Goal 2

Under Intermediate Goal 2, financial institutions are first classified into "financial intermediary" and "other financial institutions" as mentioned above. The former is here called "public and private financial institutions, etc." according to the fact that in developing countries, indirect financing through financial intermediaries play the key role in the financial sector and the main players are private commercial banks as well as public financial institutions. It is also appropriate to include the development of deposit insurance system, although it is not a financial institution, to the same category.

As a comprehensive policy assistance project, JICA's activities in this field, except for its capacity building assistance to commercial banks, etc., are so far limited to the assistances provided to public financial institutions in China and Malaysia. Explanation of these projects is included in the latter part of this chapter.

The latter (i.e. "other financial institutions") comprises security firms, life insurance companies, non-life insurance companies, leasing companies, pension funds and other funds (venture capital funds, private equity funds, etc.).

In developing countries in general, the former category of financial institutions, (i.e., "public and private financial institutions, etc.") develop first, followed by a sudden increase in the number of the latter category of financial institutions (i.e. "other financial institutions") in later years. The policy importance of "other financial institutions" may vary according to the level of government involvement in the development, management and supervision of these financial institutions. As well, depending on the main priority of the project, it may be more appropriate to classify "other financial institutions" under Intermediate Goal 3 whose purpose is to develop the financial markets.

The reason that there have been few cases of JICA projects for market players in this field (Intermediate Goal 3) can be attributed to the following two points: 1) the counterpart government does not often prioritize this kind of project in their assistance requests, partly because main related entities are private financial institutions such as security firms; and 2) there are few private Japanese consultants in this field.

Classification of public and private financial institutions, etc.

"Public and private financial institutions, etc." classified under Intermediate Goal 2 can be subdivided into the following four categories.

1) Category 1 involves the construction of a new financial system in a country. This development issue is more relevant in LLDCs and LDCs. For instance, transformation of financial instruments from informal to formal finance for the poor or for those in remote areas where access to financial services is limited (e.g. through establishing an institutional framework for microfinance); transitioning from mono bank system sustained by the government's fiscal management to a system of commercial banks in a transitional economy; reforms of state-owned banks; and establishment of the system of a smooth savings mobilization like national-wide domestic saving increase initiative of Japan after the World War II.

Representative JICA projects in this category are as follows;

- Vietnam: Recommendation on establishing a institutional framework of financial institutions in transition to a market-oriented economy in "Study on the Economic Development Policy in terms of Transition toward Market Oriented Economy in Vietnam" [No. 1-4]
- Mongolia: Recommendation on rural banking services and saving mobilization in "the Study on the Support for the Economic Transition and Development in Mongolia" [No.6]
- Myanmar: Recommendation on improvement of financial services for the poor through introduction of and establishing a system for microfinance, and on strengthening capacity of less-developed commercial banks in "the Japan-Myanmar Cooperation Programme for Structural Adjustment of the Myanmar Economy" [No. 22]

2) Category 2 involves concrete measures to develop a country's financial system with private commercial banks taking a leading part. Financial institutions have two major functions, namely financial intermediation function to effectively intermediate funds between lenders and borrowers; and settlement function to effectively and soundly settle all sorts of payments. In order to effectively carry out these two functions, financial institutions should acquire a sound management as well as a safety net to avoid risks. To sum up, there are three concrete measures to develop financial systems under this category: (i) Establishment of laws and regulations concerning financial institutions, including the improvement of governance for gaining prudence; (ii) improvement of settlement systems; and (iii) establishment of a safety net (such as deposit insurance system) in order to enhance financial disciplines and soundness. As the fourth measure, we can also add (iv) provision of assistance for financial restructuring whenever necessary (E.g.. to resolve NPL problems of financial institutions).

JICA projects in this field were mainly conducted after the Asian Financial/Currency Crisis.

- Recommendation on restructuring the banking sector in "the Program for Economic Policy

Support for the Republic of Indonesia" [No. 8, 9]

- Recommendation on measures to ensure financial soundness including settlement of non-performing loans in "Study on the Economic Development Policy in terms of Transition toward Market Oriented Economy in Vietnam Phase 3" [No. 4]

Although it is not included in the project list in Appendix 1-(1)-1, JICA also conducted a development study in Kirghiz Republic, a transitional economy in Central Asia, aiming at improving bank settlement system in FY 1994.

3) Category 3 involves improvement of public financial institutions (in the areas such as development finance, trade finance, SME finance, agriculture finance, microfinance and housing finance) and establishment of the deposit insurance system. Development of public financial institutions are generally considered very important in earlier stages of financial development, when private financial institutions are not developed enough, for providing necessary funds to build economic foundations as well as to promote the development of priority industries. In developing countries, people living in regions outside the metropolitan areas and cities generally have less access to financial services. Therefore, it is important to consider the improvement of financial systems in local areas as well.

Representative JICA projects in this category are as follows;

- Recommendation on establishing a system of development finance in the People's Republic of China (PRC):
  - The Study for Improving the Housing Finance Reform in the PRC [No.15]
  - The Study on Reforming SME System in the PRC [No.16]
  - The Study on Financial System Reform Program for the Western Area in the PRC [No. 17]
- Assistance for establishing an operational system of Export Credit Agencies in Indonesia after the Asian Currency Crisis [No.9]

4) Category 4 involves the systematic capacity building of public and private financial institutions, which includes (i) improvement of management capacities of the entire financial institution including governance (management supervision) and risk management capacities (e.g. ALM); (ii) improvement of knowledge and skills regarding the credit analysis of individual companies and projects; and (iii) improvement of bank operations such as customer services and foreign exchange operations. To organize a well-functioning system of financial institutions, it is necessary not only to build the organizational structure and institutions, but also to raise and enhance capacities to manage the organization and human resources (including credit analysis capacity) in a sustainable manner (Capacity Development). As well, Category 4 aims to improve organizations and human resources of the central bank and the ministries in charge of financial affairs in addition to public and private

financial institutions

JICA's projects conducted in the past under this category are listed below. All of these projects were aimed at sustainable capacity development of targeted counterpart agencies. Although there are still very few cases under this category, besides the model case conducted in Malaysia, this is the area in which JICA should be more active in the future.

Cases of assisting capacity development of a development finance institution in Malaysia:

- "Institutional Capacity Building on Infrastructure Finance in Malaysia" with the Development and Infrastructure Bank of Malaysia (BPIMB) as the counterpart organization [No. 23]
- "The Study on Formulation of an Action Plan to Develop Advisory Capabilities of Malaysian Development Finance Institutions for SMEs" [No. 24]

Other cases of capacity development projects:

- Assistance for strengthening "Commercial Banking Operation" of the Inter-Bank Training Center in Tajikistan [No. 28]
- "Project for Strengthening Fiscal and Monetary System in Kenya" for the Kenyan Institute of Financial Studies [No.30]

Development Assistance Intermediate Goal 3: Development of financial markets

Target groups of Intermediate Goal 3

Intermediate Goal 3 aims to improve, stabilize and enhance functions of financial markets as a whole, while Intermediate Goal 2 aims to do the same solely for financial institutions. The development issues of the Goal 3 can be classified by types of market.

Financial markets consist of unknown numbers of market players and the financial market policy/ supervising authorities (such as government ministries and stock exchanges responsible for the stock market that are in charge of setting the market rules and supervising smooth operation of financial markets.) And it is basically the latter, market authorities, that needs the technical assistance to improve and enhance financial markets.

"Capital Market Development Project" (2004/5-currently underway) [No.14] that was conducted as a part of the comprehensive policy assistance project in Indonesia is the only JICA project conducted in this field so far. This project focuses on strengthening the capital market supervisory agency rather than market players. It is difficult to respond to the assistance needs in this field without cooperation of related government agencies in Japan, because only experts who have similar background at administrative agencies are eligible to contribute to this field.

Classification of financial market

Financial markets are generally understood as below:

- security market such as stock and bond markets generally represents financial markets;

- short-term money market such as inter-bank market;
- credit markets such as market trading finance receivables, etc.;
- foreign exchange market; and to some extent,
- commodity markets such as for precious metals, crops and energy products; and
- derivative markets (e.g. financial futures and options) and securitization markets based on original assets (e.g. housing loan mortgages).

And the shared feature of all the financial markets listed above is the fact that they are basically open to the general public (i.e. market players). Market players can be classified into lenders, borrowers and the finance arranger, each of which consists of different individuals and organizations depending on the type of market. As for the length of investment, there is a broad range of short-term to long-term markets.

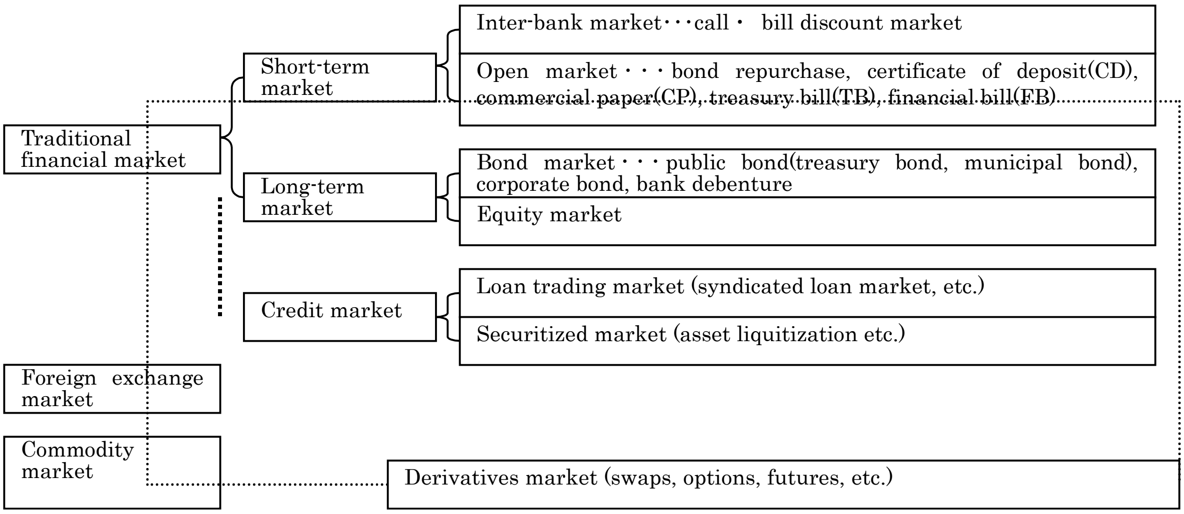
In general, financial market players indicate private commercial banks, security firms, financial brokers, the central bank, central and local governments, enterprises, investment funds, individuals and foreign economic players. The investment funds have many varieties including venture capital funds, private equity funds, and hedge funds depending on the types of funds and investment targets. In addition to these market players who directly interact to each other, it is indispensable to have the third parties such as the securities exchanges who control, manage and supervise the markets. As well, in many cases, rating agencies and other indirect market players who provide information on the credibility of bonds, etc. become important.

The typical finance is loans to companies or individuals from financial institutions comprising of short-term loans (normally equal and less than 1 year) and long-term loans (more than 1 year), however, in normal cases, such loans are not included in the so-called financial markets.

There are several terms in the "financial sector" which generally indicate specific financial market such as "security market", "capital market", "credit market", "money market", "inter-bank market" and "open market". "Security market" is symbolized by its main financial products, namely securities such as stocks, bonds and CPs. "Capital market" generally indicates both stock (equity) and bond markets where companies and the government procure funds (capital). "Credit market" deals with "credit" itself of a company, a project or a securitized product, and it resembles the bank lending (i.e. indirect finance) in a sense that all credit trading is done on a face-to-face transaction basis. "Money market" generally indicates short-term money market. "Inter-bank market" literally points to the transactions among the banks. "Open market" can receive a broader range of market participants, not limiting them to specific financial institutions. There are derivatives markets on all of the traditional financial markets, foreign exchange markets and commodity markets

The chart below shows the structure of financial markets in Japan.

Main financial markets in Japan



Financial markets in developing countries

In developing countries, the important part of the financial system is initially run by indirect finance led mainly by commercial banks, and direct finance will gradually emerge and expand as their economies develop. In this sense, the improvement and enhancement of capital markets is not the main concern for less developed countries, whereas it is of a significant development issue for the emerging countries. Nevertheless, since all developing countries require both indirect and direct finance systems as the two wheels of a car, it is advisable for all developing countries to keep in mind, from the earlier stage of economic development, the importance of developing financial markets such as capital market.

In the mean time, the improvement of short-term money markets (such as inter-bank market) and credit market as well as the enhancement of capital market will both facilitate the development of the system of financial institutions as one of major market players. This indicates the close relationship between the development of financial markets and financial institutions, and that of Intermediate Goals 2 (financial institutions) and 3 (financial markets). In fact, they both tend to develop and expand in a spiral manner.

In developing countries in general, long-term funds available for capital investments and industrial infrastructure development are very scarce. Until the domestic capital accumulation become favorable, therefore, ODA funds and other lending facilities provided by public financial institutions play an important role. And it is generally the case that a country's sources of long-term investments will gradually shift to private sources and to direct finance (i.e. fund procurement through financial markets such as capital markets) in addition to the increase in the absolute amount of funding through indirect finance.

Approaches to financial globalization

When a country's level of economic development has reached the emerging country stage, and there fore, has become eligible for the capital market development assistance, it has been generally acknowledged that the country has also reached the stage to be integrated into the global trade and investment frameworks such as WTO. This implies the fact that the country is nearing the stage that requires more opening-up of the economy. It is important, at this stage, to thoroughly consider the true effects of financial globalization on domestic financial markets.

Development Strategy Intermediate Goal 4: Improvement of financial sector infrastructures

Intermediate Goal 4 involves the improvement of infrastructures that indirectly and directly support financial sector development covered under Intermediate Goals 1-3. Financial infrastructures comprise the following: (i) establishment of laws and regulations directly and indirectly related to financial transactions, financial institutions and financial markets; (ii) improvement of all accounting systems including the accounting practices by enterprises, financial institutions and public agencies including the government and accounting and auditing firms; and (iii) capacity building for organizations and individuals through the improvement of organizational capacity to collect, store, analyze and distribute financial sector information as well as the enhancement of human resource development, R&D and computer systems capacities.

Under Intermediate Goal 4, JICA has so far conducted the following three technical cooperation project:

- *Strengthening of Accounting and Auditing Capacity Project* [No. 7] conducted for Mongol's Ministry of Finance and the Mongolian Institute of Certified Public Accountants.
- *Economic Legal Infrastructure Development Project (Corporate Related Laws)* [No. 18] conducted for the Ministry of Commerce of China.
- *The Capacity Building for Implementing Accounting System* [No. 25] conducted for the Bureau of Business Supervision (BBS), Department of Business Development (DBD) of the Ministry of Commerce (MOC) of Thailand.

As well, for the improvement of economic related laws such as commercial and civil laws, JICA has been dispatching experts to transitional economies (Vietnam, Cambodia and Lao PDR) since 1996.

It is true that the major international development finance institutions have already established a strong presence in the area of financial sector development assistance, whereas the Japanese private sector consultants have accumulated less experience and knowledge. Nevertheless, with a strong support from the public sector and academia, Japan in fact has the potential to contribute more to the development of financial sector in developing countries.

2-3. Important points for financial sector development assistance approaches

(1) Important points in approaching the financial sector

Features of the financial sector

As mentioned above, financial sector development assistance is a typical "soft assistance" which requires a broad range of, and great depth of, knowledge and expertise as well as the knowledge of other related matters including macroeconomic policies, industrial and corporate policies and social development policies. In addition to this, it is also important to deal flexibly with individual developing countries taking into consideration their respective differences. Above all, financial sector development assistance is the area in which international development finance institutions and Western donor countries already have a great presence.

Important points in financial sector development assistance

Taking into consideration the features of financial sector development assistance mentioned above, there are several important points in approaching this area of assistance:

(i) A strenuous effort is required in order to accomplish the project effectively. This implies the importance of providing appropriate amount of resources in quality and quantity for adequately long time period. For example, many countries in transition to a market economy are still in the middle of their changing processes, even after many years since their commencements of graduating their previous economic regimes.

(ii) An appropriate understanding of the financial state of developing countries is required. Although it is useful to categorize the state of a country's financial development according to the level of economic development, it is of an utmost importance to evaluate thoroughly the individual cases. Many developing countries normally produce development plans or reform programs regarding the financial sector or at least those including a financial sector component, with the support of international aid agencies such as the World Bank/ IMF. In most cases, such development plans and reform programs can be accessed at the country's government ministries or the central bank responsible for the financial sector and at the web sites of the World Bank/ IMF etc.

(iii) Major international development finance institutions (IDFIs) such as WB and IMF have accumulated information of the financial sector in developing countries, and often involve deeply in setting directions of financial sector reforms in those countries through their financial system strengthening programs, such as Financial Sector Assessment Program (FSAP) for WB member countries. Thus, it is necessary to know in advance their relationship to the county concerned. This knowledge will facilitate the necessary collaboration with IDFIs and other Western donor countries.

(iv) A constant review of the global trend is necessary since the financial sector is an ever-progressing field. For instance, developing countries need to keep up with the trend of international accounting standards.

(v) As mentioned in chapter 1, a hands-on type approach of capacity development (e.g. human resources and institutions capacity building projects) has been the strong feature of Japan's technical assistance. As well, the fact that Japan has significant experience in deploying many public financial institutions is one of Japan's strong features in the financial sector development assistance. Japan has to present its own distinct features in financial sector development assistance, although it is also essential to coordinate with IDFIs and other donor countries as mentioned above. The followings are examples of characteristics of Japanese assistance in the financial sector.

- Experience of catching up with Western style financial practices and related legal systems
- Emphasis on long-term development policy, based on recognition that the market framework can not be developed spontaneously in the short-term
- Development of the financial system mainly based on indirect financing by banks
- Emphasis on supplying funds for industry growth
- Abundant experience in development finance such as long-term capital investment finance, SME finance, agricultural finance, etc. (including valuable lessons to cover the "market failure" or to discuss on the "government failure")
- Emphasis on hands-on technical cooperation and human resource development, based on country specific issues
- The potential high impact that can be gained through collaboration between JICA and JBIC. (Eg. JICA can provide technical assistance for the capacity development of executing agencies of developing countries of JBIC's two-step loans.)

(2) JICA's experience in financial sector development assistance

JICA's past involvement in the financial sector development assistance, based on the projects conducted by the Economic Development department, has been classified into two activities: technical assistance projects (including development studies and training programs) and the acceptance of trainees, the details of which are both listed in Appendix 1-(1). Representative cases of JICA project-type activities are shown by each Intermediate Goal in the 2-2-2. The overall trend can be summarized as follows: The total number of JICA's financial sector technical assistance project-type activities since 1995 has amounted to 35, of which 17 projects are carried out as a part of the target country's comprehensive economic policy assistance project including 11 development study projects.

One of JICA's projects that can be highlighted as Japan's major comprehensive technical assistance project is the "Study on Economic Development Policy in the Transition Toward a Market –oriented Economy in Vietnam" (the so-called Ishikawa Project: see Appendix 1-(2) attached) which was launched in 1995 and conducted over five years. The Project was successful in involving many experts from a broad range of fields and, what is more, had provided great insights on the policies of the Government of Vietnam. On the other hand, the total numbers of pure financial sector projects amounts to 15 (including 5 development study projects), which are all far from a full-scale assistance in this area. (E.g. one of the limited numbers of pure financial sector projects was *Infrastructure Finance Capacity Building* for BPIMP, Malaysia: see the details in Appendix 1-(2) attached) As well, there were three technical assistance projects in the area of economic legal infrastructure development that partly included a financial sector component.

Most of the recipient countries of JICA's technical assistance projects have been the countries of Southeast Asia and East Asia, due to the occurrence of Asian Financial/Currency Crisis and the Communist countries' transition to a market economy (e.g. Vietnam, China). Since the technical assistance project activities require a genuine commitment, JICA was not able to conduct many projects at the same time. Nevertheless, many of these projects (such as the projects for Vietnam and Indonesia) are conducted repeatedly with necessary expansions to the same country.

On the other hand, the total number of traineeship programs is larger than that of the technical assistance projects, since each traineeship program is generally for short duration. Traineeship programs cover a broad range of fields including economic policies (including financial policy), public debt management, insurance and securities managers training, project finance training for financial institutions and accounting and auditing systems. Majority of the trainees are from Asian region, but there are also some programs that invited trainees from all over the world.

With regard to the dispatch of experts to developing countries, the target agencies are mostly the country's fiscal and monetary authorities (such as Ministry of Finance), central banks and public financial institutions.

In relation to Intermediate Goals mentioned above, there are comparatively many acceptances of traineeship programs and dispatch of experts which are related to Intermediate Goals 1 and 2.

In the past, there has been less collaboration between JICA's technical assistance projects and its traineeship programs, except for a partial cooperation. However, we can say that the long-term and uninterrupted support for capacity development is among the most important points of the financial sector technical assistance. Therefore, further cooperation and collaboration between technical assistance projects and traineeship programs will contribute greatly to an effective and efficient implementation of each projects and programs.

Chapter 3 JICA's future direction of development assistance

3-1. JICA's priorities and issues

3-1-1. Basic approaches

First and foremost, it is important to recognize the significance of JICA's financial sector development assistance. As mentioned repeatedly, financial sector is an indispensable policy field for promoting a country's economic development and poverty reduction.

In this section of Chapter 3, before we go into details of JICA's priority development issues according to each Intermediate Goal in the next section, we would like to elaborate on the basic points of view regarding the financial sector development issues.

(1) JICA's distinctive features

Besides the traineeship program, JICA does not have much experience in financial sector projects due largely to the fact that JICA has not been mandated to provide ODA loans. Therefore, it is only natural that JICA would pursue experience step by step in financial sector development assistance in the future. To achieve this goal, JICA's experience in the past through its technical assistance activities covering a broad range of social and economic issues will certainly help. As mentioned in Chapter 1, financial sector and the real economy are two sides of the same coin. By supporting the financial sector development, therefore, we can also facilitate the development of the real economy.

JICA will be able to make good use of its abundant experience in technical assistance in a wide range of fields for selecting most appropriate development issues for financial sector development assistance. For instance, development issues such as agricultural development and microfinance are interrelated to each other and therefore able to pursue cooperation and collaboration between the two. For the same reason, infrastructure development (such as in transportation and energy sectors) and infrastructure finance can be dealt together.

(2) Recognition of three types of financial sector development assistance approaches and the necessity of information/know-how sharing

JICA may involve in the following three types of financial sector projects. In addition to Types A and B projects, which are what we genuinely call "financial sector" in this Study, JICA may involve in Type C project that are not genuinely financial sector projects but that could be a part of a project where finance could promote development of other sectors, etc.

Type A: Financial sector is the main target and theme of the project

Type B: Financial sector project is included as part of a more comprehensive policy assistance project

Type C: Financial instruments are only required to promote other socio-economic sector projects

（Type C projects can be further subdivided into (i) hard-type development projects such as infrastructure development and (ii) soft-type development project such as community assistance in rural areas）

To accumulate knowledge and experience in the financial sector development assistance through Types A & B projects will directly and indirectly contribute to a smooth conduct of Type C technical assistance projects in other socio-economic sectors. Nevertheless, it is also important to keep in mind the fact that approaches to Types A & B projects that directly deal with the financial sector is quite different from that of Type C projects that indirectly deal with the financial sector. Regarding the common issue of poverty reduction, for instance, project goals, activities and results will be very different between the project that aims to establish sustainable microfinance institutions (i.e. Type A project) and the project that deals with financial sector improvement as a component of the social and welfare sector development (i.e. type C project). For the case of Type A project in the Philippines (Microfinance development assistance project by major donor countries), see Appendix 1-(2) attached.

(3) Strengthening collaboration between JICA's project type development assistance activities and traineeship programs from the viewpoint of capacity development

The total number of JICA's traineeship programs is larger than that of its project-type activities (i.e. technical assistance through development studies and dispatch of experts). Although the traineeship programs are conducted by the section within JICA which basically operates independently from the section in charge of project type technical assistances, it is important to pursue, in the future, more collaboration and coordination between project-type technical assistance and traineeship programs in order to most effectively contribute to the sustainable capacity development of the beneficiary countries.

(4) JICA as a key technical assistance agency in Japan

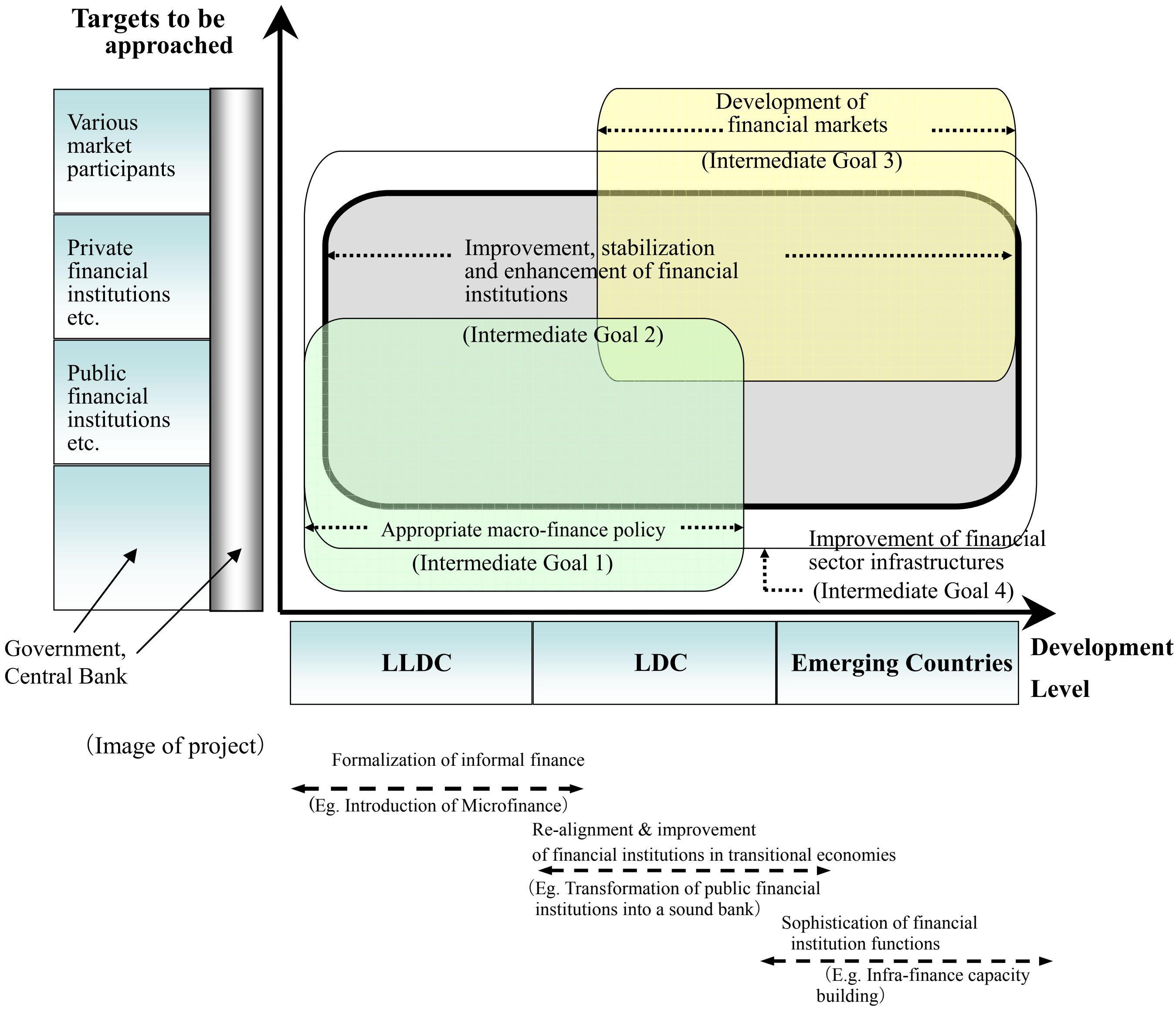
Taking into account JICA's leading role in overseas technical assistance in the past, it is most natural that JICA will be mandated to coordinate Japan's capacity development assistance projects and programs for developing countries that require the involvement of a broad range of experts.

3-1-2. Priority issues

In the following section, based on the understanding provided in the previous section, we will elaborate on JICA's future priorities and approaches regarding the Types A & B projects (i.e. JICA's project-type technical assistance projects).

As shown in the diagram below, in examining JICA's future priorities and approaches, it is useful to utilize a matrix composed of (a) changes of priority issues in the financial sector development according to the level of economic development in horizontal axis and (b) types of target organizations (which are divided into four categories for the sake of simplicity: (i) government and central bank, (ii) public financial institutions, etc., (iii) private financial institutions, etc., and (iv) other market participants) in vertical axis. The priority areas of Intermediate Goals can be defined easily according to this matrix.

Image of main targeted areas



(1) Assumptions regarding (a) changes of priority issues in the financial sector development according to the level of economic development and (b) types of assistance targets

Country classification by WB serves as a useful reference for general classification of developing countries according to the level of economic development. WB classifies countries based on gross national income (GNI) per capita in 2004, into four categories. They are low income (below $825), lower middle income ($826-3,255), upper middle income ($3,256-10,065) and high income ($10,066 or more)[5].

This is one of the many criteria generally use to classify a country's level of economic development. In the chart shown above, therefore, we used the terms least less-developed country (LLDC), less developed country (LDC) and emerging country, corresponding to the above mentioned WB country classification. Nevertheless, it must also be noted that, in many cases, it is difficult to generalize priority issues in the financial sector development solely according to the country's level of economic development, due to country specific conditions.

(i) Priority issues for least less-developed countries (LLDCs)

LLDCs are still at the initial stage of constructing domestic financial systems. Since the ministries in charge of financial systems are usually not satisfactorily developed, LLDCs tend to depend largely on the international development assistance. Domestic capital accumulation is still at the low level. Due to low credibility of national currency and banking systems, domestic savings are less attracted to formal financial institutions (such as private banks) and people are more dependent on informal sources of finance.

Therefore, it is of an utmost importance to stabilize macro-financial systems so as to win the confidence of the people towards the formal finance, which will provide a solid foundation for the country's financial systems. Thus assistance targets are mainly government ministries and central banks, while it also includes public financial institutions, private commercial banks, etc., as they are major financial institutions at this development level.

As part of this effort, one of the priorities would be to introduce and develop microfinance, which will provide the poor with access to financial services (such as savings and credit services), lowering their dependence on the high interest-rate informal finance and enabling them to increase their earnings. Central banks may take a major role in designing and operating the system that is favorable to microfinance development. Among microfinance institutions, assistance targets include NGOs engaging in microfinance, rural banks and cooperatives that are providing microfinance services as a part of their operations.

(ii) Less Developed Countries (LDCs)

At this stage of economic development, the structure of financial systems in which banks play a central role is already developed. The operational ability of banks, nevertheless, is still fairly low and requires many improvements. In order for them to implement effective intermediary and settlement

---

5 http://web.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS/0,,contentMDK:20420458~menuPK:64133156~pagePK:64133150~piPK:64133175~theSitePK:239419,00.html

functions, the overall level of financial systems as well as individual financial institutions have to be improved.

Thus the priority for LDC's financial sector development assistance will be to go into details of their indirect financial systems that seem mostly developed and to analyze them to further improve details. Again, assistance targets are government ministries, central banks, financial institutions such as public financial institutions and private commercial institutions.

Direct finance generally starts to develop at this stage of economic development. And it is important to start encouraging its sound development. In this case, assistance target are government and other financial institutions such as security firms.

Financial systems in large cities and urban areas are fairly developed, while people in rural and remote areas still have less access to financial services. It is therefore important to place emphasis on the improvement of financial systems as well as the enhancement of the microfinance in rural parts of the country. Assistance targets for microfinance development are as mentioned above in Section 1.

With respect to the transitional economies, it is generally the case that the transition process takes a long time. Priority issues in financial sector development for these transitional countries will include: (i) separation of financial policies from fiscal policies; (ii) improvement of the role of the central bank; (iii) commercialization of state-owned banks; and (iv) separation of policy-based-finance and commercial finance. Assistance targets are government ministries and agencies such as the ministry in charge of economic planning or Ministry of Finance, central banks, state-owned commercial banks, development finance institutions, etc.

At this stage of economic development, the issue of economic integration into the global systems such as WTO becomes ever more important. Therefore, it is essential that domestic financial systems will be adjusted according to international standards.

(iii) Emerging countries

In general, at the economic level of emerging countries, financial systems in which indirect financial institutions play the central role is already developed to a satisfactory level. Priority issues of financial sector development at this stage will be to assist capacity development of individual financial institutions in acquiring the expertise to provide innovative financial schemes such as project finance (which relies on project cash flow, not on corporate credibility), securitization of loan claims and establishment of securitization markets. Through the adjustments and improvements of the existing financial systems, emerging countries will be able to reach the level close to that of advanced countries. Taking project finance as an example, assistance targets include development finance institutions, the related government ministries and agencies, and financial supervisory agencies such as central banks.

At the same time, assistance is also required for the development of direct financial markets, which should already be developed to some extent. At this stage of development, it is important to diversify market players and further strengthen market functions. Assistance targets are government ministries, supervisory agencies and other financial institutions such as security firms.

As well, direct investment and portfolio investment will become more globalized at this stage of economic development. It is important for the country's financial institutions to become internationally competitive and its financial markets to become more attractive. Financial sector development assistance to emerging countries will therefore require a high-degree of expertise.

(2) Priority areas by Intermediate Goals

1) Intermediate Goal 1: Implementation of appropriate macro-finance policies

The main target countries will be LLDCs and LDCs. The number of projects that can be handled will be limited, since it requires a lot of time and commitment to develop a comprehensive financial system framework within the target country. However, this field is indispensable since the program-type assistance approach can be most appropriately used here.

Regarding the selection of the target country, it will be appropriate to choose, in principle, from those countries for which Japan has been the top donor. In addition to this, financial sector assistance should be emphasized under Japan's County Assistance Program for these countries. JICA will be required to play an important role as the coordinator of financial sector development assistance by collaborating with Japanese aid agencies, international aid agencies and other donor countries.

To achieve this goal, it is important for JICA to keep in mind the following advices:

- Understand development philosophies of macro-finance policies of international aid agencies such as WB and IMF as well as the important international assistance frameworks such the Poverty Reduction Strategy Papers (PRSP). It is important to find best approaches that are in conformity to these international trends and at the same time show Japan's own individuality in the financial sector development assistance.
- The following assistance concepts are especially important for Japan;
    - (i) Long-term perspective: Market development requires a fair amount of time to implement. Due to the long-term nature of market development, the government role is important.
    - (ii) Real economy perspective: Emphasis is also placed on the development of the real economy (such as promotion of exports, SMEs and IT) in relation to the development of the financial sector.
    - (iii) Market and government policy perspective: It is important to harmonize government policies with market principles. Both market forces and government policy are considered equally important.
    - (vi) Beneficiary country's perspective: Place emphasis on the beneficiary country's points

of view.

- Avoid a naïve transfer of Japanese cases without any consideration for the beneficiary country's situation. It is important to analyze the real situation of the target country and provide tailor-made solutions through technical assistance.
- Either one of the two types of projects (i.e. the pure financial sector development projects or the comprehensive policy assistance projects that include financial sector issues) can be selected according to the target country's capacity to implement the project and political and economic situations.

2) Intermediate Goal 2: Improvement, stabilization and enhancement of financial institutions

The target countries are all developing countries (i.e. LLDCs, LDCs and emerging countries) that require development of financial institutions (its organizational structure, laws and regulations) as the foundation of a good financial system. JICA may find easier to conduct projects in this area since it covers a broad range of countries and a wide range of financial institutions.

With respect to the content of technical assistances, this area is also suitable for JICA, since it is accustomed to the capacity development and enhancement of the target institutions. As well, due to the fact that Japan has abundant experiences in capacity development assistances (including hands-on type projects and technical assistance by public financial institutions), JICA's capacity development function can be best used in this area. For a concrete example, see Appendix 1-(2) -3) for the case of the Development and Infrastructure Bank of Malaysia (BPIMB).

3) Intermediate Goal 3: Development of financial markets

Since the target countries are limited to LDCs and emerging countries, the number of projects that will be conducted under Intermediate Goal 3 will be less than that of Goal 2. Nevertheless, it is important for any developing countries to hold the viewpoint of developing financial markets as well as financial institutions, since the earlier the better the effect of financial markets development. Since JICA has little experience of assistance in this area, it is essential to identify priority issues and target countries where Japanese assistance could take a complementary role through dialogue with international organizations, as well as to coordinate assistance activities with related institutions such as the Ministry of Finance and the Financial Services Agency of Japan.

4) Intermediate Goal 4: Development of financial sector infrastructures

Target countries are all developing countries (i.e. LLDCs, LDCs and emerging countries) at various levels of economic development. The content of the projects will include the development of laws and regulations, accounting and auditing systems, statistics, information technology and computer systems, all of which directly or indirectly support the development of financial sector covered under

Intermediate Goals 1-3.

There is a case of development of legal systems in Vietnam to which JICA dispatched experts in the past. Nevertheless, there are not many other cases in this area of technical assistance, which requires the involvement of a broad area of expertise as well as the knowledge and skills to comply with the international standards. It is of an utmost importance to immediately construct a database of resource persons and the details of technical assistances of other aid agencies in this area of technical assistance.

3-2. Future issues to be addressed by JICA

Future issues, relating to Intermediate Goals 1-4 discussed above, for JICA to strengthen its functions in the area of financial sector development can be classified into the following two areas:
(i) future issues that require internal coordination within JICA
(ii) future issues that require efforts to coordinate with external agencies.

3-2-1. Future issues that require internal coordination efforts within JICA

1) Further sorting and analysis of JICA's past activities in financial sector and related fields

If JICA intends to strengthen its commitment to the financial sector development assistance, it is important to learn from the past experiences. Therefore, a systematic categorization of the past projects is necessary. In this Study, we have attempted to list up JICA's major financial sector projects conducted in the past, but we still need to cover the entire JICA projects including the individual cases of the dispatch of JICA experts. Insights for future assistances can be gained by building a database of the past project-type technical assistances, traineeship programs, individual dispatch of experts and lecturers and other comprehensive projects.

By constructing a database of the past JICA projects, we can also develop a network of resource persons (i.e. JICA experts, lecturers, organizations and individuals from industry, government and academic sectors) and promote study on the possibility of conducting program-type technical assistance in the future. Such database and network will be valuable for the financial sector development assistance, since there are few experts with relevant expertise to conduct such projects.

2) Further research on means of providing assistance that corresponds to specific development issues

Japan's assistance in the financial sector development (including that of JICA, other aid agencies, academics and consultants) needs to further accumulate experiences. Therefore, for all the necessary knowledge and skills regarding the project-type technical assistances to the financial sector (such as approaches, know how, schemes, terms of reference/TOR and methods), JICA needs to make the best use of its past experiences as well as learn from the experiences of aid agencies in Japan and from the cases of leading international aid agencies and Western donor countries.

In this respect, the collaboration between JICA's Economic Development Department and Institute for International Cooperation (IFIC) is important. As well, the cooperation with other aid agencies in Japan including the Research Institute for Development and Finance of JBIC and the Institute of Developing Economies. It is also necessary to strengthen its ties with those public institutions that have already accumulated a certain amount of knowledge and experience in financial sector technical assistances such as MOF, BOJ and DBJ. For instance, it is not difficult for JICA to co-host a project with these experienced institutions by making the most of their knowledge and experiences.

3) Issues in project preparation

This section covers only the main issues to be examined. Further details on sections 3) and 4) will be covered in Appendix 4 attached.

(i) Understanding priority issues in the financial sector of the target country

To select the key issues of financial sector development assistance, it is important to first understand how the financial sector assistance is positioned in the assistance policy of Japanese government, to confirm assistance needs of the government or potential counterpart agencies in the recipient country, and to coordinate with other international aid agencies and donor countries. In particular, satisfactory coordination with WB and IMF is necessary in advance, because they are often the leading donors in assisting the financial sector reform of the country concerned, through "Financial Sector Assessment Program" or fiscal/financial reform programs included in the "Poverty Reduction Support Credit" under the PRSP framework.

Based on the above understanding, priority assistance areas and appropriate projects by Japanese assistance will be short-listed. Regarding the characteristics of Japanese assistance projects in the financial sector, see details in Chapter 2-3-(1).

(ii) Selection of potential financial sector projects

To begin with, implementation capacity of the potential counterpart agency is to be assessed, based on understanding the order of political priority and assistance needs priority of the potential assistance project. If the project purpose is capacity development of the potential counterpart agency, it is important to evaluate their capacity to collaborate with Japanese experts with a sense of project ownership and initiative.

At the same time, an appropriate scheme of JICA assistance is to be chosen, through confirmation and assessment of available assistance resources in Japan. Then the draft Terms of Reference (TOR) for the project, to which both governments could agree, is to be prepared.

Since, in recent years, overseas offices are in charge of planning and formulating new projects in JICA, it is essential for JICA's related departments, which are in charge of project formulation, to extend and improve knowledge not only on the financial sector but also on macro economy and fiscal sector.

4) Issues for project implementation

The content of the following lists are not only important for the financial sector projects but also for those in any other sectors. Nevertheless, it is important to keep in mind that financial sector projects, unlike hard-type assistances, aim to assist the development of “policies” and “institutional systems” that are considered as typical targets of soft-type assistances.

- Formation of a consensus on the project with a counterpart agency and its supervisory ministry (for example, ministry in charge of economic planning, ministry of finance, and central bank)
- Contents of the project (TOR, assistance scheme, measures to utilize outputs, etc.)
- Grasping necessary resources
- Establishing a joint implementation structure with the counterpart agency (it is important to ensure sustainability of the project effect after completion of the project)

In many cases of project-type financial sector technical assistances, it is often difficult for JICA to fix a detailed TOR prior to project implementation (except for the agreement made regarding TOR framework at preparatory consultation meetings between two governments), due to possible changes in priority issues according to future political and economic situations. In particular, if the project requires a long-term commitment and is an unprecedented type, it is important to accumulate enough information and know-how by conducting preliminary survey more carefully, and to examine, in advance, measures to ensure flexibility in adjusting contents of cooperation during the project implementation period, or a backup system that allows flexible mobilization of necessary experts when needed. It may be effective to adopt a flexible project scheme in which both JICA and the counterpart of the beneficiary country will be able to make necessary adjustments of the detailed project implementation plan.

As assistance in the financial sector is a relatively new area for JICA, the project in this sector would sometimes have an aspect of prior investment and might meet unexpected risks. Therefore, it is important to make such projects worth challenging for a long-term, which will enable a consigned organization to mobilize necessary experts while ensuring a certain level of profitability.

3-2-2. Future issues that require efforts to coordinate with external agencies

Financial sector development assistance will most likely require coordination with other external agencies. JICA therefore has to make efforts in the following areas:

1) Make efforts in raising the importance of the financial sector assistance in Japan’s individual Country Assistance Programs

Especially for those countries to which Japan is the top donor, it is possible for Japan to take a leading role in the sound development of their macro-finance policies by placing emphasis on the financial sector development in the respective Country Assistance Programs.

2) Contribute to the systematic implementation of Japan’s financial sector development assistance

In the past, most of Japan’s financial sector development assistances have been conducted independently by various public agencies such as JICA and MOF, and there were less coordination or collaboration with each other. As the key public agency that conducts overseas technical assistance, JICA is in the best position to contribute to the formation of a systematic network of aid agencies in Japan and promoting their collaboration.

Japan’s ODA system is currently in transition to the new system in which JICA is to take charge of overseas technical assistance, ODA grants and loans. When this new system materializes, JICA will become more capable in conducting financial sector development assistance projects, using all three ODA tools. For instance, there are many requests from the executing agencies of Japan’s two-step loans for capacity development technical assistances in addition to ODA grants and loans in the areas such as infrastructure development and SME promotion. This will definitely enhance the effectiveness and efficiency of Japan’s ODA activities.

3) Strengthen the collaboration with other international aid agencies and donor countries

Finally, it is important that JICA will make extra efforts in constructing good communication and collaboration with international aid agencies and donor countries. It is true that they already have large presence in the financial sector development assistance, but it is also the fact that Japan has not made enough efforts in informing them of its past achievements in the sector. In the current state of the financial sector development assistance, it is indispensable for Japan to receive acknowledgement from the leading international aid agencies and donor countries. Japan therefore has to make an utmost effort to cooperate and collaborate with them. With this respect, JICA is expected to play a key role in coordinating and implementing Japan’s financial sector development assistance in future years.

Appendix 1 JICA's main technical assistance activities in the financial sector

(1) JICA Project List

1) List of JICA projects (project-type activities and traineeship programs)

Project

No	Title	Project Type	Country	Start	End
1〜4	Study on the Economic Development Policy in terms of Transition toward Market Oriented Economy in the Vietnam (Phase 1-3)	Development Study Project	Vietnam	1995/8	2001/3
5	Study on the Support for the Economic Reform and Development in Mongolia	Development Study Project	Mongolia	1994	1997
6	The Study on the Support for the Economic Transition and Development in Mongolia	Development Study Project	Mongolia	1998/9	2000/3
7	Strengthening of Accounting and Auditing Capacity Project	Technical Cooperation Project	Mongolia	2005/10	2008/2
8	The Program for Economic Policy Support for the Republic of Indonesia	Development Study Project	Indonesia	2002/3	2005/3
9	Support Program for Indonesia's Economic Reform(Banking Sector Reform)	Program	Indonesia	2002	2004
10	Support Program for Indonesia's Economic Reform(Macro-Economic Policy)	Program	Indonesia	2002	2004
11	Monetary Policy Improvement Project	Technical Cooperation Project	Indonesia	2003/4	2005/3
12	External Dept Management Improvement Project	Technical Cooperation Project	Indonesia	2004/3	2006/2
13	Project for Improvement of Economic Development Planning	Technical Cooperation Project	Indonesia	2004/3	2005/8
14	Capital Market Development Project	Technical Cooperation Project	Indonesia	2004/5	on-going
15	The Study for Improving the Housing Finance Reform in PRC	Development Study Project	People's Republic of China	2000/3	2002/3
16	The Study on Reforming SME System in the People's Republic of China	Development Study Project	People's Republic of China	2003/3	2005/1
17	The Study on Financial System Reform Program for the Western Area in the People's Republic of China	Development Study Project	People's Republic of China	2004/5	2005/12
18	Economic Legal Infrastructure Development Project (Corporate Related Laws)	Technical cooperation project	China	2004/11/18	2007/11/17
19	Development of the Faculty of Economics and Business Management of National University of Laos	Technical Cooperation Project	Laos	2000/9	2007/8
20〜21	Macroeconomic Policy Support for Social-Economic Development in the Lao PDR Phase1〜2	Project Formulation Study・Technical Cooperation Project	Laos	2000/4	2005/3
22	The Japan-Myanmar Cooperation Programme for Structural Adjustment of the Myanmar Economy	Development Study Project	Myanmar	2000/12	2003/8
23	Institutional Capacity Building on Infrastructure Finance in Malaysia	Technical Cooperation Project	Malaysia	2004/5	2005/10
24	The Study on Formulation of an Action Plan to Develop Advisory Capabilities of Malaysian Development Financial Institutions for SMEs	Development Study Project	Malaysia	2004/9	2005/10
25	The Capacity Building for Implementing Accounting System	Development study project	Thailand	2003/12	2005/12
26	Project on Developing the Capacity of the Government to Ex-post Evaluation of the Externally Funded Projects	Technical Cooperation Project	Thailand	2004/11	2005/11
27	The Study on Economic Policy Support in Cambodia/Promoting Investment from Japan	Development Study Project	Cambodia	2005/11	2007/3
28	Commercial Banking Operation	Technical Cooperation Project	Tajikistan	2004/7	2004/11
29	Project Formulation Study on Development Finance	Project Formulation Study	Kazakhstan	2005/3	2005/3
30	Project for Strengthening Fiscal and Monetary System in Kenya	Technical Cooperation Project	Kenya	2005/4	2008/3
31	Argentina Economic Development Pert 2	Development Study Project	Argentina	1994	1996
32	The Study on Economic Development of the Republic of Paraguay	Development Study Project	Paraguay	1998/10	2000/12
33	Study for Promotion of Investments and Exports for the Balanced Economic Development in Republic of Chile	Development Study Project	Chile	2000/3	2001/9
34	The Study on Economic Development,Focusing on Eastern Region in the Republic of El Salvador	Development Study Project	El Salvador	2002/10	2004/2
35	The Study on International Cooperation (Study on TA operation in the IMF and discussion about future collaboration between JICA and the IMF)	Project Formulation Study	International Organization	2004/7/10	2004/7/24

Traineeship programs

No		Title	Country	Start	End
1		Obtaining Skill for Project Financing of Kazakhstan and Azerbaijan	Azerbaijan, Kazakhstan	2003	2005
2		Seminar on Financial System	ASEAN, People's Republic of China	2004	2008
3		Seminar for Managers of China Securities Regulatory Commission	People's Republic of China	2000	2004
4		Seminar for Supervisors over securities and futures market in China	People's Republic of China	2005	2007
5		Stock Exchange Seminar for Asian Countries	Asian region	2000	2005
6		HRD in Financial Sector for ASEAN Countries – Financial Derivatives	ASEAN (overseas)	2000	2002
7		Development Finance	Central & Eastern Europe	1996	2006
8		Study Course in Development Finance for Central Asian and Caucasian Countries	Central Asian, Caucasian Countries	1994	2004
9		Financial Industry Information System	Worldwide	1996	2003
10	*	Fiscal Policy & Financial Policy	Vietnam (overseas, long-term)	2001	2002
11		Insurance Supervisory Seminar for Asian Directors	Indo, Nepal, Sri Lanka & 11countries	2001	2002
12		Central and East European Executive Seminar for Insurance Supervisors	Estonskaya, Republic of Latvia & 7countries	2001	2004
13		Seminar on Economic Development Policies	Worldwide	1989	2009
14		Seminar on Small & Medium Enterprises Development Policies	Worldwide	1994	2009
15		KOICA-JICA Joint Workshop on Economic Development and Market Economy	Indonesia, Philippines, Thailand & 8countries	2000	2004
16		Management of Trade Finance	Indonesia	2001	2002
17		Seminar on Transition to Market Economy	Tajikistan	1999	2003
18		Contemporary Development in Banking and Finance	Indonesia, Philippines, Thailand & 5countries	2000	2002
19		Small Enterprises Promotion for Southern African Countries	African region	2001	2004
20		Seminar on External Debt Management Practice	Worldwide	2002	2004
21		Seminar on Sovereign Dept Management Ⅱ	Worldwide	2005	2009
22	*	Seminar on Public Assistance Fund	countries eligible for Japanese ODA loans	2002	2007
23	*	Seminar on Development Finance	Asian region	1998	2001
24	*	Transitional Country Seminar (Central Bank)	Asian region	2000	2000
25	*	Transitional Country Seminar (Central Bank system)	Asian region	2001	2001
26	*	Transitional Country Seminar (Central Bank & Financial Market)	Asian region	2002	2002
27	*	Transitional Country Seminar (Business Cycle & Financial Policy)	Asian region	2003	2003
28		Prudential Policy	Asian region	2004	2004
29	*	Treasury Bond Market	Indonesia	2000	2000
30	*	Monitoring System of Foreign Exchange Market	Indonesia	2000	2000
31	*	Capacity Building in Fiscal & Financial Field	Indonesia	2000	2000
32	*	Financial Policy	Indonesia	2002	2004
33	*	Management of government debt	Indonesia	2005	2005
34	*	Economic Policy	Indonesia	2002	2002
35	*	Financial Policy	Vietnam	2001	2001
36	*	Financial & Fiscal Science	Kenya	2002	2002
37	*	Revitalization of Financial Sector	Syria	2000	2003
38		Development Policies	Worldwide	1994	2003
39		Group Training Course in Development Policies II	Worldwide	2004	2008
40		Seminar on Small & Medium Enterprise Development Policies Ⅱ	Worldwide	2005	2009
41	*	Financial Supervision System	Thailand	2004	2004
42	*	Thailand Deposit Insurance System & Japanese Financial System	Thailand	2003	2003
43	*	Credit Union	Thailand	2004	2004
44	*	Loan Credit Analysis Process	Thailand	2005	2005
45	*	Credit Guarantee System & Credit Risk	Thailand	2003	2003
46	*	Japanese Accounting System	Thailand	2004	2004
47	*	Pension Reform	Thailand	2000	2000
48	*	Risk Management of Mortgage Financial Institutions	People's Republic of China	2001	2001
49	*	Financial Information System of Mortgage Financial Institutions	People's Republic of China	2001	2001

No		Title	Country	Start	End
50	*	Study Tour of Japanese Financial Information System	People's Republic of China	2002	2002
51	*	SMEs Seminar	Republic of Benin, Republic of Cote d'Ivoire & 2countries	2003	2005
52	*	Infrastructure Finance	Malaysia	2005	2005
53	*	Project Finance	Malaysia	2004	2004
54	*	Business Strategy for Infrastructure	Malaysia	2004	2004
55		Obtaining the Skill of Project Financing	Malaysia	2001	2003
56	*	Advisory Services for SMEs	Malaysia	2004	2004
57	*	Risk Management & Corporate Governance	Mongolia	2004	2004
58	*	Accounting & Auditing	Mongolia	2005	2005
59	*	International Finance	Laos	2002	2002
60	*	Economic Policy	Laos	2004	2004
61	*	Loan Guarantee System for SMEs	Saudi Arabia	2002	2002

(note) * means unofficial English translation of titles

2) Outline of each JICA Project

No		Title	Project Type	Country	Start	End
1～4	Project	Study on the Economic Development Policy in terms of Transition toward Market Oriented Economy in the Vietnam (Phase 1-3)	Development Study Project	Vietnam	1995/8	2001/3
	Summary	Japan has conducted its first comprehensive technical assistance for the transitional economy of Viet Nam under the Doi-Moi Policy. The main Vietnam counterparts were MPI, MOF and SBV. Five-year Vietnam-Japan joint study research was conducted under three phases, which provided recommendations on Vietnam's Five-Year Plan for Social and Economic Development; approaches to transition to an open economy; countermeasures to the Asian Currency Crisis, etc. "Fiscal and monetary policy" consisted an important part of the research, which analyzed and provided recommendations on the issues such as (i) feasibility study on fixed capital formation (state, FDI, private) and development investment funds mobilization (ODA, FDI, private savings) under the Five-Year Plan; (ii) domestic savings mobilization; (iii) improvement of financial intermediation function; post-Crisis stabilization measures, etc.				
	Intermediate Goal	Intermediate Goals 1 & 2: Financial sector forms a part of the comprehensive policy assistance. Target groups: government, central bank, development financial institutions and commercial banks of LDC in transition to a market economy				
No		Title	Project Type	Country	Start	End
5	Project	Study on the Support for the Economic Reform and Development in Mongolia	Development Study Project	Mongolia	1994	1997
	Summary	Mongolia has adopted radical reform to transform the socialist economy to a market economy since 1990. To settle the country's political and economic chaos, experts were dispatched to the Ministry of Planning, Mongolia to provide necessary recommendations on post-transition development strategy (incl. fiscal and monetary reforms and industrial development)				
	Intermediate Goal	Intermediate Goals 1& 2: Intermediate Goals 1 & 2: Financial sector forms a part of the comprehensive policy assistance. Target groups: government and central bank of LLDC in transition to a market economy.				
No		Title	Project Type	Country	Start	End
6	Project	The Study on the Support for the Economic Transition and Development in Mongolia	Development Study Project	Mongolia	1998/9	2000/3
	Summary	Mongolia, since 1990, had been rapidly transforming socialist economy to a market economy, but was in the state of political and economic chaos. Japan, the main donor for Mongolia, conducted a three-year joint research project with the Mongolian counterpart and provided recommendations to Mongolia's Middle-term Development Strategy and Public Investment Plan; Tax Collecting Function Improvement; and Regional Bank Services and Savings Mobilization. Through joint works, the project intended to contribute to the capacity development of the counterpart. With respect to the regional banking sector, the project conducted a social cost-benefit analysis and reviewed their institutional capacities, based on which recommendations were provided on the future course of Mongolia's regional banking sector development and the role of the government in setting priorities for regional banking services.				
	Intermediate Goal	Intermediate Goals 1& 2: Financial sector forms a part of the comprehensive policy assistance. Target groups: government, central bank and agriculture bank of LLDC in transition to a market economy.				
No		Title	Project Type	Country	Start	End
7	Project	Strengthening of Accounting and Auditing Capacity Project	Technical Cooperation Project	Mongolia	2005/10	2008/2
	Summary	Mongolia, in its Poverty Reduction Strategy Paper entitled "Economic Growth Support and Poverty Reducution Strategy (EGSPRS)" has emphasized the importance of institutional capacity building for private sector development. This technical cooperation project, as a part of EGSPRS, intended to strengthen the capacity of certified public accountants and therewith promote appropriate disclosure of corporate information as well as strengthen corporate compliance. JICA provided traineeship programs in Japan as well as dispatched short-term experts to Mongolian counterparts, namely the Mongolian Institute of Certified Public Accounts and the Ministry of Finance.				
	Intermediate Goal	Intermediate Goal 4. Target groups: government and certified public accountant association of LLDC in transition to a market economy.				
No		Title	Project Type	Country	Start	End
8	Project	The Program for Economic Policy Support for the Republic of Indonesia	Development Study Project	Indonesia	2002/3	2005/3
	Summary	The Asian Currency Crisis had the largest impact on Indonesia to which Japanese experts, with a strong leadership of Ministry of Finance and Ministry of Economy, Trade and Industry, had held a high-level policy discussions with the relevant ministers of Indonesia. Experts assisted the counterpart in economic policy making and jointly issued the recommendation to the President that covered the following seven fields: (i) macro-economic management (public debt management, tax reform, etc.); (ii) financial sector reforms (monetary policy and banking sector restructuring); (iii) SME promotion; (iv) private sector investment expansion; (v) democratization; (vi) decentralization; and (vii) capacity development in all the areas listed above.				
	Intermediate Goal	Intermediate Goals 1& 2: Financial sector forms a part of the comprehensive policy assistance. Target groups: government and central bank of LDC in the aftermath of the Asian Financial Crisis				

No		Title	Project Type	Country	Start	End
9	Project	Support Program for Indonesia's Economic Reform(Banking Sector Reform)	Program	Indonesia	2002	2004
	Summary	To assist Indonesia's post-crisis economic recovery and achievement of sustainable economic development, JICA dispatched long- and short-term experts as well as provided country specific training to the Central Bank of Indonesia on the following three financial sector themes: 1) improvement of the capacity to implement monetary policies including foreign exchanges monitoring and supervision of banks; 2) management of external debts and trade finance by the Central Bank; and 3) improvement of operating system of export credit agencies (ECAs).				
	Intermediate Goal	Intermediate Goals 1 & 2. Financial sector technical assistance. Target groups: government, central bank/export credit agencies of LDC in the aftermath of the Asian Financial Crisis.				
No		Title	Project Type	Country	Start	End
10	Project	Support Program for Indonesia's Economic Reform(Macro-Economic Policy)	Program	Indonesia	2002	2004
	Summary	In order to prevent financial currency crises, JICA provided assistance in the improvement of macroeconomic policy implementation (such as sustainable fiscal management, international balance of payments controls and enhancement of capital markets) as well as in the policy formation of development plans (through the improvement of policy analysis capacity using economic models) .				
	Intermediate Goal	Intermediate Goal 1: Financial sector forms a part of the comprehensive economic policy assistance. Target groups: government of LDC in the aftermath of the Asian Currency Crisis.				
No		Title	Project Type	Country	Start	End
11	Project	Monetary Policy Improvement Project	Technical Cooperation Project	Indonesia	2003/4	2005/3
	Summary	In 1999, Indonesian government enacted new Central Bank Law. In order to assist capacity development of Economic Research and Monetary Policy Department of the Central Bank of Indonesia regarding economic trend survey and monetary policy making, JICA dispatched long- and short-term experts (i.e. Central Bank of Japan personnel and academics) as well as provided country specific training.				
	Intermediate Goal	Intermediate Goal 1: Financial sector technical assistance. Target group: central bank of LDC in the aftermath of the Asian Currency Crisis.				
No		Title	Project Type	Country	Start	End
12	Project	External Dept Management Improvement Project	Technical Cooperation Project	Indonesia	2004/3	2006/2
	Summary	For the capacity development of the International Department of the Central Bank of Indonesia, JICA dispatched its long- and short-term experts in order to facilitate speedy but accurate calculation of external debt outstanding. (through the establishment of efficient private sector external debt reporting system; and the improvement of the Central Bank's data processing system.				
	Intermediate Goal	Intermediate Goal 1: Financial sector technical assistance. Target group: central bank of LDC in the aftermath of the Asian Financial Crisis.				
No		Title	Project Type	Country	Start	End
13	Project	Project for Improvement of Economic Development Planning	Technical Cooperation Project	Indonesia	2004/3	2005/8
	Summary	Immediately after the Asian Currency Crisis, Indonesian government issued PROPENAS, the new Five-Year Plan, which was conducted by the National Development Planning Agency (BAPPENAS). Due to the rapid economic changes in post-crisis period, capacity development of BAPPENAS became necessary. JICA dispatched long- and short-term experts as well as provided training to the Economics Department of BAPPENAS and conducted technology transfers regarding quantitative and qualitative analysis and planning methods.				
	Intermediate Goal	Intermediate Goal 1: Financial sector assistance forms only a small part of the economic policy assistance. Target group: government of LDC in the aftermath of the Asian Financial Crisis.				
No		Title	Project Type	Country	Start	End
14	Project	Capital Market Development Project	Technical Cooperation Project	Indonesia	2004/5	2005/2
	Summary	As a part of No. 8 Project, JICA, in cooperation with Japan's MOF and Financial Services Agency, dispatched JICA's short-term experts to Indonesia's Capital Market Supervisory Agency of MOF as well as conducted local trainings. The project has intended to improve the counterpart's governance and corporate ethics as well as to enhance capital market policies.				
	Intermediate Goal	Intermediate Goal 3: Financial sector assistance was a major part of the project. Target group: government of LDC in the aftermath of the Asian Financial Crisis.				
No		Title	Project Type	Country	Start	End
15	Project	The Study for Improving the Housing Finance Reform in PRC	Development Study Project	People's Republic of China	2000/3	2002/3
	Summary	Chinese government and people's Bank of China, deciding that Japan's Housing Loan Corporation can be a model case for them, requested Japan to provide technical assistance to China regarding their housing loan system reforms. In response, Japan conducted a development research on China's current state of housing system reform, housing industry, housing demand and housing finance (project phase I) , based on which provided medium- to long-term recommendations on the development of China's housing loan systems (project phase II).				
	Intermediate Goal	Intermediate Goal 2: Financial sector technical assistance was a major part of the project. Target groups: government and central bank of LDC in transition to a market economy.				

No		Title	Project Type	Country	Start	End
16	Project	The Study on Reforming SME System in the People's Republic of China	Development Study Project	People's Republic of China	2003/3	2005/1
	Summary	This development research was intended to provide recommendations to the Chinese counterpart (i.e. People's Bank of China) on the master plan to establish China's SME finance systems. Research subjects and activities included 1) actual situation of SMEs and SME finance in China and ODA; 2) issues of SME finance; 3) SME finance system in Japan; 4) medium- to long-term recommendations on China's SME finance system (incl. SME finance policy system; legal system; credit insurance; credit risk management; credit information system; human resources development and action plan); and 5) workshop.				
	Intermediate Goal	Intermediate Goal 2: Financial sector assistance is a main part of the project. Target groups: government and central bank of LDC in transition to a market economy.				
No		Title	Project Type	Country	Start	End
17	Project	The Study on Financial System Reform Program for the Western Area in the People's Republic of China	Development Study Project	People's Republic of China	2004/5	2005/12
	Summary	This development research was conducted for the Chinese counterparts (i.e. People's Bank of China, Central Government-backed Great Western Development Project, etc.) regarding the establishment and planning of development finance systems in western China. It consisted of the following themes: 1) analysis of the current state of China and its western region (incl. monetary policy and financial system reforms; fiscal, industrial and investment policies and systems; implementation of investment and loan projects such as regional development and infrastructures; and laws and regulations) ; 2) setting up of important development issues (incl. a mechanism to attract the central and local government and private sector loans and investments to the region; estimation of ten-year cash demand for a typical regional-based priority project; and monetary and institutional enhancement policies to back up the implementation of the Great Western Development Project); 3) Japanese examples; 4) monetary policies and financial systems in the western region; and 5) comprehensive evaluation and recommendations according to the above.				
	Intermediate Goal	Intermediate Goals 1 & 2: Financial sector forms a major part of the project. Target group: government, central bank and development bank of LDC in transition to a market economy.				
No		Title	Project Type	Country	Start	End
18	Project	Economic Legal Infrastructure Development Project (Corporate Related Laws)	Technical cooperation project	China	2004/11/18	2007/11/17
	Summary	China, after its accession into the WTO in December 2001, has accelerated its transition to a market economy. As part of this effort, China has enacted and revised economic legislation based on the Legislative Plan of the National People's Congress. In order to meet China's urgent needs to promote capacity building, Japan, whose legislative culture is similar to that of China, has mobilized legal experts from the Ministry of Justice, Ministry of Economy, Trade and Industry, Japan Fair Trade Commission and Hitotubashi University to conduct technical cooperation projects for the Chinese counterpart (i.e. Ministry of Commerce). The project consisted of three sub-projects: 1) Revision of Corporate Law; 2) Enforcement of Antitrust Law; and 3) Marketing and Distribution Law.				
	Intermediate Goal	Intermediate Goal 4. Target groups: government of LDC in transition to a market economy.				
No		Title	Project Type	Country	Start	End
19	Project	Development of the Faculty of Economics and Business Management of National University of Laos	Technical Cooperation Project	Laos	2000/9	2007/8
	Summary	In 1996, ADB had assisted the Government of Laos to establish the Faculty of Economics and Management at the National University of Laos. After the completion of the ADB project in September 2000, Japanese Ministry of Education, Culture, Sports, Science and Technology and the University of Kobe jointly conducted seven-year technical assistance project for the capacity-building of the Faculty. The main activities included: 1) preparation of economics and management teaching materials; 2) improvement of teachers' research capacities; 3) strengthening of management of the Faculty; and 4) dispatching experts from Japan and third countries as well as holding training seminars both in Japan and third countries to achieve all the above objectives.				
	Intermediate Goal	Intermediate Goal 1: Financial sector assistance formed a part of the comprehensive technical assistance project. Target group: government of LLDC in transition to a market economy.				
No		Title	Project Type	Country	Start	End
20～21	Project	Macroeconomic Policy Support for Social-Economic Development in the Lao PDR Phase1～2	Project Formulation Study・Technical Cooperation Project	Laos	2002/10	2005/3
	Summary	Economic situation in Laos deteriorated rapidly in the aftermath of the Asian Currency Crisis. In order to assist Laos in its economic reconstruction, Japan, the top donor to Laos, provided technical assistance. By improving Laos's economic policy-making capacities, Japan intended to increase the effectiveness of its ODA to Laos. The Laosian counterpart was the National Economic Research Institute. This project was conducted in two phases by dispatching long- and short-term experts and research teams to target groups (incl. Committee for Planning and Cooperation, Ministry of Finance, Central Bank, commercial banks, Prime Minister's Cabinet, etc.) ; conducting technical assistance projects; implementing joint researches and recommendations; and holding training programs in Japan. The main subjects in Phase I included macroeconomics, fiscal and monetary policy, state-owned enterprises, FDIs and poverty reduction policies. In Phase II, main issues were economic integration, financial systems, SME promotion and agriculture and farming village promotion. .				
	Intermediate Goal	Intermediate Goals 1 & 2: Financial sector assistance forms a part of the comprehensive policy assistance. Target groups: government and central bank of LLDC in transition to a market economy.				

No		Title	Project Type	Country	Start	End
22	Project	The Japan-Myanmar Cooperation Programme for Structural Adjustment of the Myanmar	Development Study Project	Myanmar	2000/12	2003/8
	Summary	As a part of the Japan-Myanmar Cooperation Programme for Structural Adjustment of the Myanmar Economy, financial sector technical assistance was provided based on the following two sub-themes: 1) review of the financial sector (especially banking sector) and its legal system in Myanmar and recommendations on their capacity development; and 2) making a road map for the establishment of microfinance system and institutions and their capacity development.				
	Intermediate Goal	Intermediate Goals 1 & 2: Financial sector assistance was a part of the comprehensive policy assistance. Target groups: government and central bank of LLDC under the military regime.				
No		Title	Project Type	Country	Start	End
23	Project	Institutional Capacity Building on Infrastructure Finance in Malaysia	Technical Cooperation Project	Malaysia	2004/5	2005/10
	Summary	JICA helped the Development and Infrastructure Bank of Malaysia (BPIMB), which was mandated to carry out post-crisis infrastructure development, to improve its financial finance operations. JICA and its Malaysian counterpart jointly drafted an improvement plan and conducted capacity development with the following five components: 1) Improve BPIMB's infrastructure finance risk management system; 2) accumulation and sharing of technical know-how regarding individual project evaluation; 3) improvement in human resources development programs; 4) strengthen good governance; and 5) clarify the role of BPIMB in the government ministries				
	Intermediate Goal	Intermediate Goal 2: Financial sector assistance was a major part of the project. Target group: development finance institutions in an emerging country.				
No		Title	Project Type	Country	Start	End
24	Project	The Study on Formulation of an Action Plan to Develop Advisory Capabilities of Malaysian Development Financial	Development Study Project	Malaysia	2004/9	2005/10
	Summary	JICA conducted a development research, in cooperation with its Malaysian counterpart (Central Bank of Malaysia/BNM), to draft an Action Plan to improve the SME advisory services of the five Malaysian state-owned development finance institutions (DFIs). The main research activities covered: 1) base line research on SME finance (incl. the present state of government/DFI/private sector SME advisory services and overall situation of SME finance in Malaysia); 2) research on Japanese cases and experiences; 3) drafting of an Action Plan and 4) Action Plans drafted by each of the five DFIs.				
	Intermediate Goal	Intermediate Goals 1 & 2. Target groups: central bank and development finance institutions of an emerging country.				
No		Title	Project Type	Country	Start	End
25	Project	The Capacity Building for Implementing Accounting System	Development study project	Thailand	2003/12	2005/12
	Summary	Thai government enacted new accounting law in 2000 in an attempt to persuade SMEs to prepare proper financial statements. In order to meet Thailand's urgent needs to promote the capacity building of the Bureau of Business Supervision (BBS), Department of Business Development (DBD), Ministry of Commerce (MOC), JICA conducted a traineeship program in Japan as well as made a proposal regarding capacity building of the Bureau and how to make its operation efficient by conducting a development research study.				
	Intermediate Goal	Intermediate Goal 4. Target groups: government of an emerging country.				
No		Title	Project Type	Country	Start	End
26	Project	Project on Developing the Capacity of the Government to Ex-post Evaluation of the Externally Funded Projects	Technical Cooperation Project	Thailand	2004/11	2005/11
	Summary	JICA provided technical assistance to Thailand's Public Debt management Office (PDMO) of the Ministry of Finance by dispatching long-term experts and holding Country Specific Training Program for the country. The project aimed at improving the institutional capacity of PDMO in monitoring overseas lending projects, evaluating projects and auditing. (JICA-JBIC joint evaluation program was also conducted)				
	Intermediate Goal	Intermediate goal 1: Financial sector assistance was a major part of the project. Target group: government of an emerging country.				
No		Title	Project Type	Country	Start	End
27	Project	The Study on Economic Policy Support in Cambodia/Promoting Investment from Japan	Development Study Project	Cambodia	2005/11	2007/3
	Summary	Although ten years has passed since the end of the civil war, Cambodia still lacks domestic investment capital and depends heavily on FDIs. Cambodian counterparts were the Council for the Development of Cambodia (CDC) and Cambodian Investment Board (CIB). In order to attract FDI from Japan, JICA conducted an evaluation on investment environment and carried out a feasibility study for attracting FDIs. It also provided recommendations regarding the improvement of Cambodia's investment environment. As well, JICA conducted capacity development of CIB by holding training programs both in Cambodia and Japan.				
	Intermediate Goal	Intermediate Goals 1& 2: Financial sector assistance formed only a small part of the project. Target group: government in post-civil war LLDC.				
No		Title	Project Type	Country	Start	End
28	Project	Commercial Banking Operation	Technical Cooperation Project	Tajikistan	2004/7	2004/11
	Summary	JICA dispatched short-term experts and provided technical assistance to the Inter-Bank Training Center, which was established by the Central Bank of Tajikhstan. In order to enhance its transition to a market economy and achieve economic growth, Tajikhstan Government placed emphasis on the policies to strengthen commericial bank functions. JICA's short-term experts conducted practical capacity development seminars for the senior and middle management of commercial banks at the Training Center. The project also aimed at improving the institutional capacity of the Training Center. JICA had also discussed with its counterpart about the future technical assistances.				
	Intermediate Goal	Intermediate Goals 1 & 2: Financial sector assistance was a major part of the project. Target groups: government and central bank of LLDC in transition to a market economy.				

No		Title	Project Type	Country	Start	End
29	Project	Project Formulation Study on Development Finance	Project Formulation Study	Kazakhstan	2005/3	2005/3
	Summary	Upon the request from the Kazakhstan Development Bank, which was established in 2001 as one of the financial institutions that provide funds necessary for the implementation of the government's 10-Year Development Plan (2001-2010). The project was formed jointly by JICA, Kazakhstan Development Bank and Ministry of Trade and Industry of Kazakhstan.				
	Intermediate Goal	Intermediate Goals 1 & 2: Financial sector assistance was a major part of the project. Target groups: government and development finance institution of an emerging country in transition to a market economy.				
No		Title	Project Type	Country	Start	End
30	Project	Project for Strengthening Fiscal and Monetary System in Kenya	Technical Cooperation Project	Kenya	2005/4	2008/3
	Summary	This project provided technical assistance for the institutional capacity development of the Kenyan Institute of Financial Studies, which was established in 1997 by Kenyan Government to raise financial sector experts. Kenyan counterparts included the Kenyan Institute of Financial Studies, the Central Bank and the Ministry of Finance. In order to improve their capacities to raise human resources in the area of fiscal and monetary affairs, JICA dispatched short-term experts to the Institute and helped improve their curriculum and training methods. As well, it conducted trainers training both in Kenya and in Japan, and also provided equipments essential for the technical assistance.				
	Intermediate Goal	Intermediate Goal 1: Financial sector assistance was a major part of the project. Target groups: government and central bank of LLDC.				
No		Title	Project Type	Country	Start	End
31	Project	Argentina Economic Development Pert 2	Development Study Project	Argentina	1994	1996
	Summary	In order to assist Argentine to achieve sustainable economic growth, JICA presented recommendations in the following four priority areas: 1) export expansion and investment promotion; 2) strengthening competitiveness in order to increase exports to East Asian countries; 3) SME promotion; 4) industry promotion and improvement of transport system in order to expand exports.				
	Intermediate Goal	Intermediate Goal 1: Financial sector assistance was only a part of the comprehensive policy assistance. Target group: government of an emerging country.				
No		Title	Project Type	Country	Start	End
32	Project	The Study on Economic Development of the Republic of Paraguay	Development Study Project	Paraguay	1998/10	2000/12
	Summary	Since Paraguay joined the South American Trade Agreement called MERSCOR in 1995, the country has opted for trade liberalization. Paraguay, nevertheless, has not been able to compete with other big economies in the region. JICA therefore presented its counterpart (Ministry of Planning) with the agriculture, industry, SME and transport system development strategies and their Action Plans based on the analysis of their present state.				
	Intermediate Goal	Intermediate Goal 1: Financial sector assistance was only a small part of the project. Target group: government of LDC.				
No		Title	Project Type	Country	Start	End
33	Project	Study for Promotion of Investments and Exports for the Balanced Economic Development in Republic of Chile	Development Study Project	Chile	2000/3	2001/9
	Summary	Chile had achieved rapid economic growth in the 1990s, but was severely affected by the Asian Currency Crisis. In order to boost the economy by drafting new development strategies for individual regions of the country, JICA presented the Ministry of Economy, Development and Reconstruction. of Chile with an industrial development strategy and short-term action plan, which aimed at promoting investments and exports between Asian and South American countries under the frameworks of MERSCOR and APEC.				
	Intermediate Goal	Intermediate Goal 1: Financial sector assistance was a small part of the project. Target group: government of LDC.				
No		Title	Project Type	Country	Start	End
34	Project	The Study on Economic Development,Focusing on Eastern Region in the Republic of El	Development Study Project	El Salvador	2002/10	2004/2
	Summary	This research was conducted for the National Development Committee of El Salvador in order to draft its Economic Development Master Plan and Action Plan for the eastern region where the economic development is falling further behind the rest of the country. JICA presented a road map for strengthening competitiveness by attracting FDIs, enhancing exports as well as by developing the eastern region through the effective use of the Port of Cutuco built with JBIC's ODA loan.				
	Intermediate Goal	Intermediate Goal 1: Financial sector assistance was only a small part of the project. Target groups: government of LDC.				
No		Title	Project Type	Country	Start	End
35	Project	The Study on International Cooperation (Study on TA operation in the IMF and discussion about future collaboration between JICA and the IMF)	Project Formulation Study	International Organization	2004/7/10	2004/7/24
	Summary	In the aftermath of the Asian Financial/Currency Crisis, the international donor community and Japan made efforts in establishing a well-functioning development assistance system to provide loans, grants and technical assistances to strengthen financial sector. In response to this trend, JICA decided to conduct a research on IMF's financial sector technical assistance and its collaboration methods, in order to improve the function of its newly established (April 2004) Economic and Monetary Policy Team, Economic Development Department..				
	Intermediate Goal	Intermediate Goals 1, 2, 3 and 4: Financial sector assistance is a major part of the project. Target groups: government, central bank, development finance institution, commercial banks, etc.				

(2) Detailed cases in the financial sector assistance

1) International cooperation case 1: Philippines－example cases of donor assistance for microfinance development

1. Project Overview

1-1. Project summary

Basic stances of Microfinance Institutions (MFIs) to provide microfinance services include "Financial System Approach" and "Poverty Lending Approach." The former emphasizes establishment of a sustainable system to provide financial services for the poor, while the latter depends on the external funds and is conducted as an assistance to provide such funds for the poor often through NGOs, etc[6]. Here cases of three projects in the Philippines are introduced to illustrate examples of donor assistance in microfinance development by financial system approach.

Name of Donor：	Asian Development Bank (ADB) and International Fund for Agricultural Development (IFAD)	United States Agency for International Development (USAID)	
Project title：	A Rural Microenterprise Finance Project (RMFP)	B-1 Credit Policy Improvement Program, (CPIP)	B-2 Microenterprise Access to Banking Services Program (MABS)
Contents：	-Provision of loans (on-lending funds and institutional development funds) to MFIs through intermediary financial institutions -Technical assistance for MFIs and intermediary financial institutions	-Technical assistance for MOF/National Credit Council	-Technical assistance and trainings, etc. for rural banks, in collaboration with Rural Bankers Association of the Philippines
Implementation Period：	April 1997-Dec. 2002	1997-2005	Jan. 1998-Sept. 2004
Summary：	Loans for on-lending and institutional development to Grameen Replicator MFIs through intermediate financial institutions, and technical assistance for strengthening institutional management capability	Technical assistance for Ministry of Finance /National Credit Council (MOF/NCC) in rationalizing government credit and loan guarantee programs to expand access to credit by the poor.	Technical assistance for rural banks to build their capability to provide microfinance service (loan, deposit) to microentrepreneurs, mainly in Mindanao.

[6] Yoshida, Hidemi, and Mariko Okamoto. Pp 4-5. "Research of case studies of JICA's technical assistance in the microfinance sector (Japanese)" (July, 2004). Institute for International Cooperation, Japan International Cooperation Agency.

1-2 Background and Contents of the Projects

Ａ．Rural Microenterprise Finance Project (RMFP) [ADB/IFAD]7

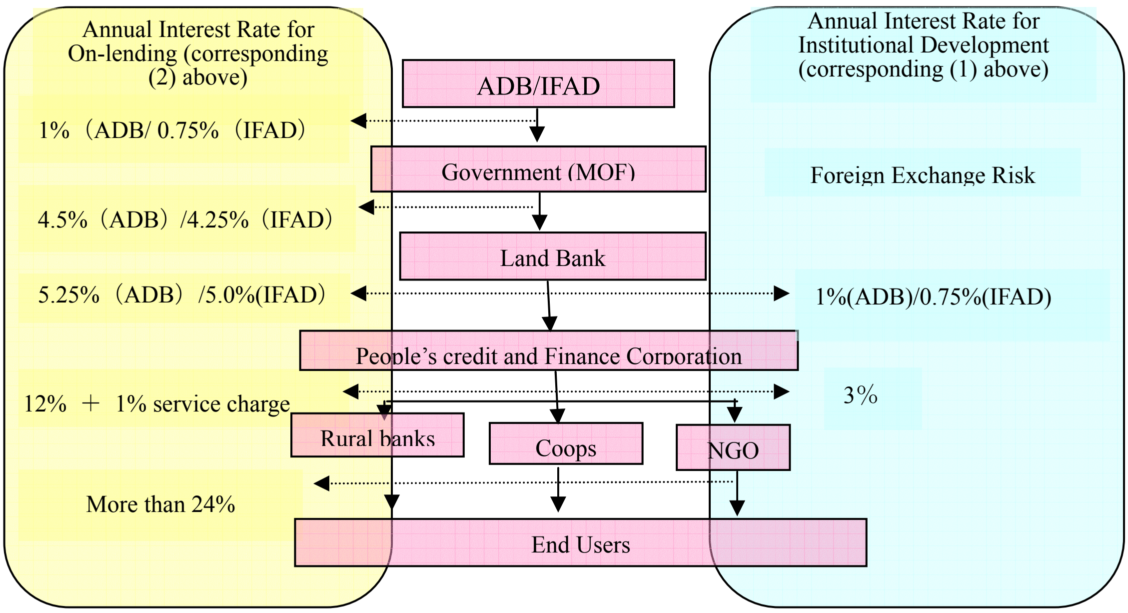
Poverty reduction is considered as one of the important national policy in the Philippines. In 1994, 53.7% of the rural population was poor, and poverty reduction in rural areas was recognized widely as an urgent task. In order to break the poverty cycle, it is important that the poor has access to adequate financial services, but there were almost no provision of financial services to the ultra-poor by the formal financial institutions, and also such services were not adequately provided by informal sectors. Under such circumstances, this project was implemented aiming at contributing to poverty reduction, by providing adequate financial services for the poor through Grameen replicator MFIs (i.e. rural banks, cooperatives and NGOs). The followings are the main activities of the project.

(1) Preferential loans to Grameen replicator MFIs: start-up costs for new branches, ongoing development costs for existing branches, costs for training branch managers and MFI staffs, costs associated with self-help group formation

(2) Loans for on-lending to Grameen replicator MFIs for lending to microenterprises

(3) Strengthening financial and institutional management capability of MFIs and intermediary financial institutions (grant by ADB): financial management, design and installment of operation systems (such as MIS), preparing manuals for those systems, installment and operation of system through trainings and OJT.

The following chart shows the project structure of microfinance loan funds flow from donor agencies to end-users.



7 This section is based on IFAD "Republic of the Philippines, Rural Micro-Enterprise Finance Project, Interim Evaluation Report" (June 2003); ADB "Report and Recommendation of the President to the Board of Directors on a proposed loan and technical assistance grant to the Republic of the Philippines for the Rural Microenterprise Finance Project " (March 1996)

B. Assistance by USAID

B-1. Credit Policy Improvement Program (CPIP) [8]

In the Philippines there were many directed credit programs using government and donor funds. Nevertheless limited access to loans for the poor, especially in rural areas, was a major problem. Thus the National Credit Council (NCC) was established in October 1993, having its task to rationalize all government directed credit programs, etc. This program started in 1996, in response to the request, by the government of the Philippines, of technical assistance to strengthen the function of the NCC.

More concretely, this program aimed at effective functioning of the NCC as the government policy-making agency on credit, the rationalization of government policies on savings, credit and loan guarantees, and establishment of an enabling policy environment to promote participation of private sector and MFIs. The following two activities were conducted in this program.

(1) Policy review and analysis of all government credit policies and technical support for the implementation of policy changes
(2) Advocacy to promote the rationalization of government directed credit and loan guarantee programs and to encourage the implementation of viable alternatives.

With the assistance from this program, the NCC initiated the formulation and adoption of key credit policy measures, such as the National Strategy for Microfinance, the Social Reform and Poverty Alleviation Act and the Barangay Microenterprise Business Act. Furthermore, the program provided technical assistance for establishing microfinance industry infrastructure for effective regulatory environment, such as establishment of the effective regulatory framework for microfinance and development of the performance standards for all types of MFIs

B-2 Microenterprise Access to Banking Services (MABS) Program[9]

In the Philippines, about 20% of the total households depend on the income from microenterprises, which could be considered as an important sector for economic development. But microenterprises face difficulty in expanding their businesses, because access to formal financial services is basically limited and in such case they often have to borrow from informal financial services that charge very high interests. This program was conducted to expand provision of microfinance services for microentrepreneurs, through providing technical assistance and trainings for rural banks to develop capabilities of microfinance (loans and deposit) services.

The program conducted the following activities, in collaboration with the Rural Bankers Association of the Philippines.

---

8 This section is based on http://www.usaid-ph.gov/documents/oedg/cpip.pdf

9 This section is based on http://www.usaid-ph.gov/documents/conflict/mabs.pdf and http://www.rbapmabs.org.

(1) Provision of MABS approach training and technical services to rural banks: The program provided training/technical service package for rural banks to profitably and successfully offer loan and deposit services to microentrepreneurs.
(2) Strengthening rural banks, etc.: The program monitored operation of rural banks' microfinance and made recommendation. It also provided technical services to thrift banks.
(3) Development of anti-backsliding and microfinance promotion institutions: The program developed and conducted measures, such as seminars and forums, to ensure adherence to microfinance best practices. It also established several microfinance promotion institutions, including private firms that are licensed to provide MABS trainings, and model banks.
(4) Development of bank management software, etc.: The program developed bank operation software etc. to strengthen the management information systems, data collection, reporting capabilities, etc.
(5) Development of rural finance loan products: The Program developed the micro agri-loan product for small farmers and owners of small agriculture-based enterprises.

2. Approaches to financial sector development assistance

2-1. Objectives of financial sector development assistance

According to the Consultative Group to Assist the Poor (CGAP) [10], "Microfinance is the supply of loans, savings, and other basic financial services to the poor[11]." The poor is in need of various financial services, such as loans, savings, and insurances, as a measure to finance business activities or to reduce influence by coping with risks (sickness, disasters, accidents, etc), although their access to formal financial services is limited. In response to such needs of the poor, microfinance is considered internationally as an effective tool to fight against poverty; "Key Principles of Microfinance" (in the box below) was developed by CGAP members and endorsed by the G8 Summit on June 10th 2004.

CGAP positions microfinance as a part of the financial sector. "Donor Guidelines on Good Practice in Microfinance" by CGAP (December 2004), [12] provides a basic principle of establishing "Inclusive Financial Systems" that integrates financial service for the poor into formal financial system, in order to offer microfinance services in a large-scale and sustainable manner. For example, the above-mentioned "Key Principles of Microfinance" includes the following principles, as there

---

[10] CGAP is a consortium of donor agencies, aiming at expanding access to financial services for the poor and a resource center on MF industry with membership of 31 agencies. Japanese Ministry of Foreign Affairs, Ministry of Finance and Japan Bank for International Cooperation are members of CGAP.

[11] http://www.cgap.org/about/faq01.html

[12] CGAP, "Building Inclusive Financial Systems: Donor Guidelines on Good Practice in Microfinance" (December 2004)

may be limitation to the effectiveness of microfinance for the destitutes who do not have any regular income or repayment method, MFIs should not depend on subsidies and interest rate should be set at a level which enables MFIs to cover operation costs in order to offer sustainable microfinance services, the role of the government is to establish a policy environment that is favorable to promotion of microfinance development, donor funds should avoid competition with private funds and be spent for establishing infrastructure which supports microfinance industry, such as for strengthening MFIs and rating agencies[13].

Key Principles of Microfinance (Summary)

1. **Poor people need a variety of financial services, not just loans**. In addition to credit, they want savings, insurance, and money transfer services.

2. **Microfinance is a powerful tool to fight poverty**. Poor households use financial services to raise income, build their assets, and cushion themselves against external shocks.

3. **Microfinance means building financial systems that serve the poor**. Microfinance will reach its full potential only if it is integrated into a country's mainstream financial system.

4. **Microfinance can pay for itself, and must do so if it is to reach very large numbers of poor people**. Unless microfinance providers charge enough to cover their costs, they will always be limited by the scarce and uncertain supply of subsidies from donors and governments.

5. **Microfinance is about building permanent local financial institutions that can attract domestic deposits, recycle them into loans, and provide other financial services**.

6. **Microcredit is not always the answer**. Other kinds of support may work better for people who are so destitute that they are without income or means of repayment.

7. **Interest rate ceilings hurt poor people by making it harder for them to get credit**. Making many small loans costs more than making a few large ones. Interest rate ceilings prevent microfinance institutions from covering their costs, and thereby choke off the supply of credit for poor people.

8. **The role of government is to enable financial services, not to provide them directly**. Governments can almost never do a good job of lending, but they can set a supporting policy environment.

9. **Donor funds should complement private capital, not compete with it**. Donor subsides should be temporary start-up support designed to get an institution to the point where it can tap private funding sources, such as deposits.

10. **The key bottleneck is the shortage of strong institutions and managers**. Donors should focus their support on building capacity.

11. **Microfinance works best when it measures—and discloses—its performance**. Reporting not only helps stakeholders judge costs and benefits, but it also improves performance. MFIs need to produce accurate and comparable reporting on financial performance (e.g., loan repayment and cost recovery) as well as social performance (e.g., number and poverty level of clients being served).

(http://www.cgap.org/KeyPrinciplesSummary.html)

[13] http://www.cgap.org/keyprinciples.html

2-2. Effective approaches to financial sector development assistance

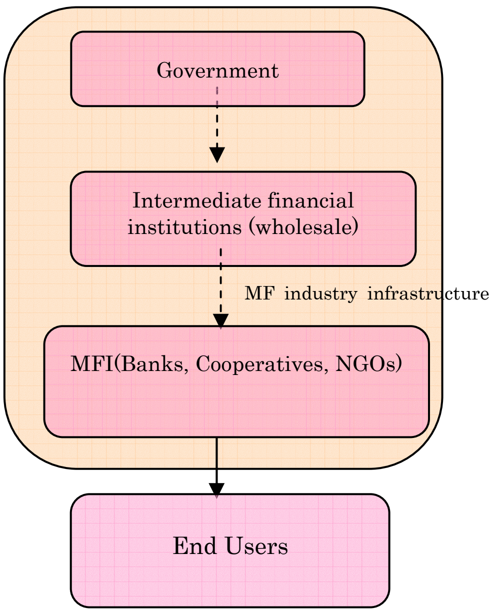
(1) CGAP approach and supplementary measures

"Donor Guidelines on Good Practice in Microfinance" by CGAP puts emphasis on the integration of financial services for the poor at macro, meso, and micro-levels, from the viewpoint of establishing an "Inclusive Financial System." The following table shows players and contents of the assistance at each level described in the guideline[14].

	Players	Contents of Assistance
Macro level (Policy environment)	Central banks, Ministry of Finance, other relevant government agencies	Establishing an enabling policy environment and ensuring adequateness of the government role
Meso Level (Financial system infrastructure)	Auditors, rating agencies, industry associations, transfer and payment systems, IT, technical service providers, trainers, etc.	Establishment of financial system infrastructure which supports microfinance industry
Micro level (Retail MFIs)	Retail MFIs	Promoting strong retail MFIs

Based on CGAP donor guideline and microfinance implementing structure (shown as a flow chart below) derived from the above examples of assistance projects in the Philippines, the following approaches could be considered for providing technical assistance to the microfinance sector, from the viewpoint of financial sector assistance.

a. Assistance for establishing a policy environment that is favorable for microfinance promotion
b. Assistance for establishing microfinance industry infrastructure
c. Assistance for strengthening capabilities of intermediary (wholesale) financial institutions
d. Assistance for strengthening capabilities of retail MFIs
e. Assistance for building capabilities of end-users (microenterprises)



[14] CGAP "Building Inclusive Financial Systems: Donor Guidelines on Good Practice in Microfinance" December 2004

(2) Approaches taken by the Program A, B-1 and B-2

-Approach taken by Program A

Program A provided loan funds for on-lending and institutional development, as financial assistance to strengthen MFI capabilities. It also included a grant technical assistance component, which assisted strengthening financial/institutional management capabilities of MFIs and intermediary financial institutions (microfinance wholesale institutions).

-Approach taken by Program B-1

Program B-1 provided assistance for establishment of favorable policy environment to microfinance and infrastructure supporting microfinance industry, through technical assistance for relevant policy-making governmental agencies.

-Approach taken by Program B-2

Program B provided assistance for rural bank (i.e. retail MFIs) capability building in offering microfinance services in collaboration with an industry association.

3. JICA's Priorities in financial development assistance and Future issues

(1) Effective donor assistance includes technical assistance for establishing favorable environment and institutional framework to microfinance and strengthening institutional capabilities of implementing institutions. Thus when JICA considers its assistance measures in a certain country, it is important to, first and foremost, understand current status of microfinance industry in the beneficiary country (such as policy/institutional framework related to microfinance, capabilities of intermediary financial institutions, capabilities and operations of retail MFIs), and identify and conduct necessary technical assistance or capability building according to the categories listed in the section 2-2.

(2) In particular, technical assistance for JBIC loan executing institutions would be an important area for JICA assistance, for further raising effectiveness of assistance by two organizations.

(3) One of the remaining assistance areas is supporting graduating end-users. Some micro entrepreneurs slightly below or above the poverty line might have potential to grow into a small enterprise, with continuous provision of assistance and access to financial services. However, responding to the needs of such microenterprises (providing technical assistance for their business expansion, strengthening capabilities of MFIs to provide adequate financial services, etc.) is a new area even in the Philippines whose microfinance development could be considered as relatively advanced. Possibility of assistance in this area in the future might be considered, taking into account whether it is possible to utilize or apply, in some ways, Japanese experiences of supporting SMEs so far.

2) International cooperation case 2: Vietnam －financial sector reform assistance in the transitional economy

1. Project Overview

1-1. Project summary

Financial Sector Reform Assistance in the Transitional Economy of Vietnam

	A	B
Project name	Fiscal and Monetary Policy research of "The Economic Development Policy in the Transition towards a Market-Oriented Economy in the Socialist Republic of Vietnam" by JICA （"Ishikawa Project"）	Assistance for development investment capacity building (Technical assistance for the capacity development of the Development Assistance Fund)
Target country	Socialist Republic of Vie Nam	
Executing agency	JICA	MOF (Japan), ECFA, World Bank
Cooperation schedule	Research on Development Finance	Diagnosis and capacity building of a development finance institution
Duration	Between May 1995 and March 2001 (a partial period)	In 2001 and 2003 (one month each)
Summary of activities	a) preparation of a macro framework for the earlier stage of transition, b) proposal for institutional and management reforms in the financial and other relevant sectors in order to stabilize financial system in the mid- to long-term as well as achieve sustainable economic growth （including regulations and supervisions by the government and management reforms of state-owned financial institutions and enterprises）	Presentation of examples of major development finance institutions and provided support for management reforms

1-2. Project background

Project A ("Ishikawa Project")

In 1995, upon the request of the Government of Vietnam, the Government of Japan and JICA has decided to conduct a development study on the comprehensive technical assistance for the transitional economy of Vietnam under the Doi-Moi Policy. Based on the project formation research conducted in May 1995, GOJ and JICA had launched the five-year long research, of which Fiscal and Monetary part constituted an important component. This research project marked the first step in JICA's comprehensive policy assistance activities and became the first Industry-Government-Academia collaboration in this area. The research project was comprised of three phases, all of which has laid the foundations of Vietnam's economic reforms as well as Japan's policy assistance to the country.

1) Phase I: Development Policy Research was conducted in 1995 in order to make a proposal for the Sixth Five-Year Plan for Social and Economic Development in Vietnam (1996-2000)
2) Phase II: Development Policy Research was conducted in 1996 in order to cope with the issues related to the transition to an open market economy (including AFTA)
3) Phase III: Development Policy Research was conducted between 1997 and 1998 in order to make proposals for the Seventh Five-Year Plan for Social and Economic Development in Vietnam (2001-2005) as well as for policies to cope with the aftermath of the Asian Financial/Currency Crisis (1997-1998)

As Vietnam's financial sector has made constant transition to a market economy, its capital accumulation mechanism has also shifted from planning of resource mobilization to implementation of fiscal and financial policies. As the financial sector became an important component of the economy, the improvement, stabilization and enhancement of financial sector became extremely important. The Government s of Vietnam and Japan had jointly conducted the Development Policy Research I-III, each of which laid emphasis on the following issues.

1) Phase I: The role of fiscal and financial policies and their impact on economic growth; the flow of public investments and development funds (tax revenue, ODA, etc.); the flow of private funds and development funds (domestic savings, FDIs, etc.); and mobilization methods for investment and development funds.
2) Phase II: Feasibility study on the fixed capital formation (State, FDI and private sector) and fund procurement of the Sixth Five-Year Plan for Social and Economic Development in Vietnam; financial system reforms; and measures to hasten the improvement in banking functions.
3) Phase III: The impact of the Asian Financial/Currency Crisis on Vietnam's financial sector; reforms in the financial and other relevant sectors in order to stabilized financial systems as well as achieve sustainable economic growth (regulations and supervisions by the government, state-owned enterprises, etc.)

Project B

After the completion of the development study on the comprehensive technical assistance for the transitional economy of Vietnam, the next task was to present concrete policy measures for institution building and technology transfer, in order to put theory into practice.

As a financial component of the Project, the capacity development program for Vietnam's development finance institution, namely the Development Assistance Fund (DAF), was conducted by Japanese MOF. The Program has focused on the establishment of an efficient and effective development finance institution in the transitional economy of Vietnam by learning from the experience of Asian countries including Japan. In concrete, the Program presented an evaluation report regarding the roles and issues of DAF and conducted technical assistances to enhance DAF's lending capacity.

2. Approaches to financial sector development assistance

2-1. Objectives of financial sector development assistance

Project A: *To facilitate financial system reforms in the early stage of economic development and transition to a market economy.*

Japan's ODA usually are conducted in the forms of multilateral (i.e. together with international aid agencies such as in the case of Poverty Reduction Support Credit/PRSC) or bilateral cooperation. Project A was conducted in the bilateral form upon the request of the Government of Vietnam, who was concerned at the time with the IMF/WB's Structural Adjustment Policy, which required the country to make rapid progress on structural reforms. In search of an alternative ways to development, the Government of Vietnam asked the Government of Japan, its main donor, for suggestion.

Project B: *To promote institutional capacity building of Development Finance Institution in the transitional economy of Vietnam.*

Project B was a bilateral cooperation between the two countries' development finance institutions. Japan provided technical assistance based on the experience of Fiscal Investment and Loan Funds system and the Development Bank of Japan (DBJ, the former Japan Development Bank/JDB).

The situation has changed in recent years and international aid agencies started to act in concert with the efforts of the Government of Vietnam and Japan. As a matter of fact, the World Bank under its PRSC program, in which the Japanese Government takes important part, started to assist the effort of the Government of Vietnam in adopting international standards and conducting the "Transformation Plan of DAF into Development Bank of Vietnam" and therewith attain its primary goals of WTO accession and integration into the world economy. By the implementation of PRSC program, WB intends to enhance the transparency and efficiency of Vietnam's new financial systems.

2-2. Effective approaches to financial sector development assistances

(1) Approaches to Project A-type assistances

For the Project A-type activity, the following approaches were considered most appropriate:

- Analysis of macro demand-supply conditions of the development funds
- Evaluation and recommendation on the appropriate measures to stabilize financial systems and achieve sustainable development in the transitional economy of Vietnam

・ Evaluation and recommendation on the appropriate measures to mobilize development funds

Accordingly, approaches to other Project A-type assistances can be categorized as below:

1) For countries in the early stages of transition to a market economy and economic reconstruction, the priority for the financial sector development assistance will include the following: (Note that there is this common ground between the countries in transition to a market economy and those in the process of post-war economic reconstruction where they both require recovery from economic confusion in the first place and need longer time to establish various systems in order for the market to function properly.)

- Study macro finance policies to facilitate economic stabilization (such as policies to reduce hiper-inflation) and provide recommendations
- Assist the preparation of policies to strengthen financial discipline
- Support the separation of fiscal and financial policies (including the separation of government loans to infrastructure development from other government loans & grants by delegating the former to DFIs)

2) When countries in transition to a market economy and those in the process of post-war economic reconstruction reach the second stage where they start aiming for sustainable growth, banking reforms will become the utmost priority of financial sector development assistance, which includes the following:

- Construction of sound financial systems to ensure the mid- to long-term sustainable economic growth.
- Improvement of development finance systems, especially capacity building of related banks (e.g. improvement of development finance system, small and medium enterprise finance system, etc.)

(2) Approaches to Project B-type assistances

For the Project B-type activity, the following approaches were considered most important:

・ Establishment of an effective and efficient financial institution in charge of the Development Investment Credit of the transitional economy of Vietnam through legal system improvement and management reforms.
・ Designation of eligible industrial sectors (such as infrastructure, new technology development, environment, SMEs, poverty reduction, etc.) and appropriate financial measures for the state-owned development finance institution, to which the international community must acknowledge.
・ Finding out an appropriate fund mobilization measure for development finance.
・ Finding out the most suitable fund mobilization method for development finance
・ Diagnosis of the to-be Development Finance Institution with regard to its capacity development,

including governance, risk management, lending and fund procurement.

Accordingly, approaches to other Project B-type assistances can be categorized as below:

- For countries in transition to a market economy, financial sector development assistance should focus on the establishment of financial systems and assisting financial sector capacity building to enhance sustainable economic growth. This is especially true in the fields of development finance and industrial finance.
- Financial sector development process involves separation of management of the state-owned financial institutions from the state control, through which financial institutions become gradually detached and independent from the state and its fiscal management.
- In the actual process of development finance system reforms in the transitional economy, each of the following three components should work in concert with each other for maximum effect: (See the figure below)
  - Clear the division of responsibilities between the central and local governments, who have authority to decide industrial and infrastructure development investments, and development finance institutions, who have the authority to conduct lending activities.
  - Increased management independence and soundness of state owned enterprises, who will supposedly become the major borrowers of development finance institutions
  - Capacity development of the development finance institution by improving their financial discipline, mid-to long-term fund mobilization and capacity for credit analysis.

Transition process to a market-oriented economy

~ From Fiscal Budget Allocation to Financial Market Adjustment ~

Economic Entity / Transition Stage	Planned Economy	Transition	Market Economy
Government: Fiscal Budget	A Fund Allocatio Directed by Government / Investment & Savings by Government		Decreasing Relative Share of Gov.-directed Fund Allocation
Development Investment	Investment Decision by Government	Partly Decided by Local Gov. & SOEs	Increasing Relative Share of Development Investment Screened by Financial Institutions
State-owned Enterprises (SOE)	Inseparability of SOE from Government	Separation of SOEs from Government Corporatization, Merger or Liquidation	Privatization, Limitation of SOE Activities
Government Credit	Inseparability of Government Credit from Non-refundable Budget	Separation of Gov. Credit from Fiscal Budget Establishment of Independ Development Finance Institution	Reducing Gov. Credit
Financial Market	Mono Bank Central Bank Allocates Funds as Directed by Gov.	Separation of Commercial Financ from Central Bank Separation of Policy-based Finance from Commercial Finai	B Demand & Supply Adjustment of F nds through financial Intermediation by Banks & Securities Firms

Financial intermediaries and their issues can be categorized as below:

1) State finance sector: Differentiation of refundable investments from non-refundable investments, and thereupon improve their respective management capacities (e.g. Separation of Japan's Fiscal Investment and Loans Program from the General Budget)
2) State-owned development finance institutions: Establishment of development finance institutions with management independence from the State, and eventual establishment of a financially independent development bank.
3) State-owned commercial banks: Detachment from the state-directed financial regimes under the mono bank system and specialization to commercial banking. Promotion of commercial banks's capacity building.
4) Domestic private financial institutions: Assistance for the establishment of effective and efficient private commercial financial institutions
5) Foreign-owned financial institutions: Promotion of the transfer of financial technology from industrialized countries.

3. JICA and its international cooperation policy

3-1. JICA’s Priorities in financial development assistance

In recent years, donor coordination mechanism such as the case in PRSC in which the Government of Japan works in concert with international aid agencies is becoming the norm, and there will be fewer cases of bilateral development assistances. Therefore, it becomes very important for Japan to take care not to fall into the trap or be blindsided to impartial remedies by IMF/WB’s Structural Adjustment Policies, but beware of assisting individual countries based on their own different situations. Keeping this in mind, Japan can always show its individuality in the area of financial sector development assistance, even in the multilateral context.

When countries in transition to a market economy reach the second stage where they start aiming for sustainable growth, the priority of financial sector development assistance should shift to the Project B-type activities such as described above: management reforms of development finance institutions, establishment of financial systems, etc. In such cases, it becomes increasingly important to conduct an integrated reform of the financial sector and the real economy (e.g. management improvement of SMEs, etc. on the borrowers’ side and capacity development of financial institutions on the lenders’ side) and to provide assistance for a gradual institutional capacity building (i.e. an approach to promote gradual realization of individual countries’ hidden capacities and avoid haste liberalization or transition to an open economy), both of which are supposed to be Japan’s forte.

3-2. Future issues

To date, ODA loans have been a key instrument for Japan’s foreign assistance. It would be of great importance, therefore, to conduct an appropriate capacity development assistance program for those institutions, to which Japan have already provided two-step loans in infrastructure and SME development, and therewith improve aid efficiency. To accomplish this, it is indispensable for JICA and JBIC to further collaborate with each other.

Under the Project B-type approach, the main target for development finance sector technical assistance will be 1) state finance sector, 2) state-owned development finance institutions and 3) state-owned commercial banks. At the same time, it is crucial to improve industrial policy as a basis for development finance, which requires the establishment of an appropriate policy execution system based on international standards such as WTO and AFTA.

3) International cooperation case 3: Malaysia －infrastructure finance capacity building for Development Finance Institution

1. Project overview

1-1. Project summary

・Project name	Institutional Capacity Building on Infrastructure Finance in Malaysia
・Country	Malaysia
・Executing agency	JICA
・Cooperation menu	A proposal-type technical cooperation (PROTECO) of JICA
・Duration	May 2004 - October 2005
・Summary	To assist in capacity development of the Bank Pembangunan Dan Infrastruktur Malaysia Berhad (BPIMB) who is mandated with the task of developing the infrastructure finance capacities in Malaysia in the aftermath of the Asian Financial/Currency Crisis.

1-2. Project background

In the aftermath of the Asian Financial/Currency Crisis that occurred in 1997, the Government of Malaysia has strived to stabilize its macro economy as well as to normalize its fiscal and financial policies. To support this effort, the Government of Japan (GOJ) has provided financial assistance amounting to US$ 5 billion under the Principle of the "New Miyazawa Initiative."

Under the Eighth Malaysia Plan (2000-2005), Malaysian Government has mandated the Development Bank of Malaysia (the former BPIMB) with the task of providing infrastructure finance in addition to financing small and medium Bumiputra enterprises. To support this effort, GOJ has decided to provide untied loans and ODA loans to BPIMB through the Japan International Cooperation Agency (JICA), as part of the Miyazawa Initiative.

In 1999, the Development Bank of Malaysia was accordingly renamed as the Bank Pembangunan Dan Infrastruktur Malaysia Berhad (BPIMB). Upon the request from Malaysian Government, JICA dispatched a group of experts to BPIMB in order to build their lending capacities for infrastructure finance. After the completion of the first dispatch of experts and upon Malaysian Government's request for continued technical assistance, Japan has decided to launch the "Institutional Capacity Building on Infrastructure Finance in Malaysia" project.

At the mean time, the Bank Negara Malaysia (BNM) (i.e. the Central Bank of Malaysia) has drawn up the Financial Sector Master Plan in March 2001 in an effort to develop a sound financial system. Following the Master Plan, in March 2002, BNM has enacted the Development Finance Institution Act (DFIA) with which it intended to conduct various policies to build institutional capacities of DFI in Malaysia.

1-3. Project contents and features

Project purpose	To strengthen the lending capacity of BPIMB's infrastructure finance operation by improving its project management and risk management systems
Outputs & activities	Key outputs and activities for BPIMB's capacity building comprises the following five components: 1) strengthening the capacity of BPIMB'S infrastructure finance risk management system; 2) accumulation and sharing of know-how on individual project risk evaluations; 3) strengthening BPIMB's human resource development capacity; 4) strengthening BPIMB's capacity to improve organization; and 5) Improving the understanding among the government departments of the importance of BPIMB's infrastructure finance roles in Malaysia.

Note: see the attached Project Design Matrix for the Project details.

Features:

1) JICA has conducted its vital Capacity Development Program to a DFI in the state-of-the-art financial sectors, namely infrastructure and project finance. In collaboration with the Human Resources Division of BPIMB, JICA has conducted Project Finance Trainers Training Program; developed General Traineeship Program; and monitored the effects of these programs. These programs were accomplished successfully owing to the following factors: 1) enthusiastic cooperation of JICA's Expert Team and the Malaysian counterpart; 2) satisfactory preparation beforehand; and 3) the experience of holding Country Specific Training for Project Finance three years before, targeting at various development finance institutions in Malaysia.
2) The remarkable thing about this project was the fact that it was Japan's first chance to conduct technical assistance in the field of project finance, regarding to which Japanese financial sector has weaker comparative advantage than other Western countries. The Project had materialized owing largely to the following factors: 1) the target group was a development finance institution in which Japan had accumulated abundant know-how through the experience of Development Bank of Japan, which is know for its best practice; 2) Japanese experts who joined the Expert Team had abundant project finance experiences in private sector financial institutions in Japan and abroad; and 3) development of a tailor-made study program designed specifically for the Malaysian counterpart, including workshops that enabled students to put theory into practice.

2. Financial sector development assistance approaches

2-1. Purpose of financial sector development assistance: establishment of an effective and efficient infrastructure finance system

Assistance for the establishment of an effective and efficient infrastructure finance system can be classified into the following three categories:

(i) Rationalization of public expenditures (i.e. the central and local governments expenditures)

(ii) Utilization of private funds and know-how through private sector participation

(iii) Making the best use of the existing development finance institutions and other specialized financial institutions.

2-2. Effective approaches to the infrastructure finance sector development

For the establishment of the three types of financial infrastructures as categorized above, the following development assistance approaches can be taken.

1) Infrastructure finance through public expenditures

Due to the public nature of the properties, expenses necessary for the construction of social capitals are generally covered by the central and local government budget. It is crucial to improve the public investment program, therefore, to conduct efficient public infrastructure development. (Here we will not go into details)

2) Utilization of private funds and know-how for the implementation of infrastructure development projects

Since the 1980s when "small government" and deregulation became the world norm, many governments of industrialized countries have promoted the construction of public infrastructures through private sector participation by utilizing private funds and know-how. In the meantime, the governments of developing countries have also become enthusiastic in constructing public infrastructures through private sector participation (E.g. utilizing Built-Operate-Transfer method, etc.) in order to respond to the increasing demand for construction of public infrastructures to sustain their rapid economic growth.

There are several fund procurement methods for public infrastructure construction through private-sector participation such as listed below:

i) Privatization of state-owned enterprises that are in charge of infrastructure construction;

ii) Sell-off or lease-out of public infrastructure assets;

iii) Operation privatization of public infrastructures (through consignment of operation)

vi) Procurement of private funds (by public private joint ventures, project finance methods including BOT, etc.)

It is necessary to weight the relative difficulty of the options and to select the most appropriate fund procurement method based on the government policy, features of the project concerned and the market trends.

3) Capacity building of specialized financial institutions (such as DFI) in providing funds to infrastructure development projects

In addition to the utilization of private funds and know-how for the implementation of individual infrastructure development projects as mentioned above, it is crucial to provide assistance to the capacity development of DFIs, which are in the position to mobilize funds from abroad and within the country to finance important infrastructure construction projects.

The collection of infrastructure investments usually takes long time and therefore requires a unique financial know-how and skills. It is possible to support Malaysia in establishing a smooth infrastructure development system by providing appropriate technical assistance for the improvement of DFI capacity to mobilize the long-term funds and to efficiently conduct infrastructure finance. At the same time, from the viewpoint of improving the effectiveness of DFI's infrastructure finance system, it is important to conduct a comprehensive capacity building development of apex bodies: the line ministries that assist infrastructure development from the political and administrative points of view; DFI supervisory ministry; Ministry of Finance that is in a position to provide institutional framework for the procurement of long-term funds; and Financial Services Agency or the Central Bank that is in a position to supervise all financial institutions and to maintain their sound financial discipline.

3. JICA and its international cooperation policy

3-1. JICA's Priorities and concerns in financial sector development assistance

First and foremost, although this applies to every policy discussions, it is of an utmost importance to study thoroughly the current state of infrastructure finance in individual developing countries. The next step is to support the preparation of the master plan for infrastructure finance development according to the three technical assistance categories listed above. The effective collaboration between JICA and JBIC is also indispensable at this stage since the implementation of infrastructure projects generally requires financial assistance such as Japanese ODA funds. Final step is to actually conduct the capacity development projects according to the features of each assistance category.

3-2. Future issues

1) Collaboration between JICA's Capacity Building Program and JBIC's two-step loans

As mentioned above, BPIMB has been one of the executing agencies of JBIC's Two-step loans extended to Malaysia in the aftermath of the Asian Financial/Currency Crisis. Since most of the Two-step loans are given government guarantees, JBIC has not been accustomed to assisting the capacity building of these executing agencies in the past.

It is important that ODA providing countries make sure that they analyze the roles of their executing agencies in their respective countries and provide support for their capacity development in order to improve the effectiveness and efficiency of ODA loans. It is obvious that the ODA receiving countries like Malaysia has already recognized the importance of DFI capacity building, since the Central Bank of Malaysia (BNM) has already started enhancing the sound financial management of DFIs with the enactment of the DFIA.

Although, the Project (“Institutional Capacity Building on Infrastructure Finance in Malaysia”) by JICA has been conducted in a timely manner, we regret the absense of collaboration between JICA and JBIC, which could otherwise have made a great difference in terms of effctiveness and efficeiency of technical assistance on the part of Malaysia and the Two Step Loan executing agencies.

The experience of this Project, nevertheless, is valuable and can be applicable to other countries that are currently receiving JBIC’s two-step loans. This needs more consideration.

2) Diversification of the methods to dispatch experts

In the past, JICA has dispatched long-term experts in small groups for its technical assistance activities in general. But it is possible to devise other new ways for JICA’s capacity building assistance projects. For instance, it is possible to conduct a technical assistance project by a combination of “intermittent dispatch of a large number of short-term experts who are active in a wide variety of fields” and “experts doing satisfactory preparation back home.” This method seems especially effective for the financial sector technical assistance project, since it is generally very difficult to find many financial experts who can serve in the long term in Japan.

Project Name: Institutional Capacity Building on Infrastructure Finance in Malaysia/ Duration: May 2004-October 2005/ Target Group: Bank Pembangunan Dan Infrastruktur Malaysia Berhad (BPIMB)			
Narrative Summary	Objectively Verifiable Indicators	Means of Verification	Important Assumptions
Overall Goal Infrastructure finance capacity in Malaysia, especially that of BPIMB, is strengthened.	-Number of project examining at project formulation stage -Number of conducting feedbacks of issues to the government as financial institution	-Record of project screening -Document of feedback to the government	
Project Purpose Credit risk management capacity of infrastructure finance operation in BPIMB is strengthened with improved project management and risk management system and capability	-Number and ratio of project which has been assigned risk scoring -Implementation of periodical Total Loan Portfolio Review (TLR)	-Risk scoring record -Statistical analysis based on TLR	-Credit risk management system of infrastructure finance system in BPIMB is maintained/ updated and continues to be utilized. -Authorities concerned recognize BPIMB's capacity building.
Outputs 1. Capacity of BPIMB's infrastructure finance risk management system is strengthened 2. Know-how on project risk evaluation is accumulated and shared in BPIMB 3. BPIMB's human resource development concerned with infrastructure finance is strengthened. 4. BPIMB's capacity of organizational improvement related to infrastructure finance is enhanced 5. Understanding is enhanced regarding direction of the BPIMB's infrastructure finance roles in Malaysia	1. Plan of improving risk management system for infrastructure finance of BPIMB as a whole is formulated 2. Know-how database, financial modeling for sub-sectors, risk evaluation guideline materials are completed 3. Number of trained trainers, number of seminars conducted by trained trainers and number of participants, degree of understanding by participants 4. BPIMB's organizational improvement plan is prepared 5. Recognition of direction regarding BPIMB's infrastructure finance operation is agreed among senior executives	1. Improvement plan of risk management system for infrastructure finance of BPIMB 2. Know-how database, financial modeling for sub-sectors, guideline materials 3. Record of training, questionnaires 4. Organizational improvement plan related to infrastructure finance 5. Questionnaire results	-Systemized know-how is utilized for practice
Activities (Summary of activities for output 1: Examine improvement measures for risk management of infrastructure finance of BPIMB as a whole) 1-1 Assess the current capacity of infrastructure finance related sectors to make corporate and project appraisal 1-2 Examine improvement measures for organizing loan policy, manuals, etc. (for overall risk management) 1-3 Examine improvement measures for plan and system for ALM and risk management 1-4 Examine improvement measures for fund mobilization and necessary disclosure 1-5 Hold seminar on process for establishing risk management system, for upgrading know-how and practical risk judgment as a policy-based finance institution (Summary of activities for output 2: Establish knowledge accumulation system on project risk evaluation) 2-1 Review cases of loan projects and accumulate lessons learned 2-2 Improve financial modeling 2-3 Improve risk evaluation manuals 2-4 Develop a system for know-how sharing 2-5 Hold review training on know-how of project finance (Summary of activities for output 3: Establish and expand training system related to infrastructure finance in BPIMB) 3-1 Improve training system (OJT/group training) 3-2 Train trainers 3-3 Hold training/seminar on infrastructure finance (Summary of activities for output 4: Review BPIMB's organizational structure related to infrastructure finance) 4-1 Examine improvement measures for organizational structure for infrastructure finance 4-2 Examine improvement measures for organizational strengthening related to compliance and monitoring (Summary of activities for output 5: Formulate strategies of BPIMB's infrastructure finance operation) 5-1 Understand institutional issues related to BPIMB 5-2 Hold seminar for executives, including Board of Directors and Senior Management who are to establish the strategy of infrastructure finance operation 5-3 Examine strategies for coping with institutional changes under DFI Act (i.e. clear mandate and policy for infrastructure financing)	Inputs **Malaysian Side** -Task Force (Counterparts & Working Team) -Working facilities in BPIMB -Adequate budget -Coordination with local institutions	**Japanese Side** Experts -JICA Experts -DBJ lecturers Training -Training of Malaysian personnel(s) in Japan Others - Utilization of JICA-Net - Case studies by local consultants	-Trained staff continue working at BPIMB -Counterpart members continue working at BPIMB Pre-conditions -Institutional framework related to infrastructure finance operation of the BPIMB does not change.

Appendix 2 Financial sector development aid policies and activities of major International organizations etc.

(1) Current state of financial sector development aid policies and activities

1. World Bank Group (IBRD & IDA)

Activity overview

The World Bank Group believes that financial sector has a great impact on economic growth and poverty[15] because (i) a well-functioning financial sector is essential for private sector-led growth; (ii) financial crises burden countries with crippling costs, hinder development and increase poverty; and (iii) a well-functioning financial sector provides the poor with access to financial services.[16]

The Financial Sector Board, members of which consist of Vice Presidents of the WB Regional Offices, Financial Sector Vice President (FSEVP)[17] and the IFC representative, supervises financial sector development activities conducted by the WB Group. As well, since May 1999, all financial system development programs have been conducted together with the IMF under the Financial Sector Assessment Program /FSAP.

The WB Group has recognized financial sector as a target sector in the mid 1980s, after which it gradually started to provide full-scale development assistance. In the first place, IBRD and IDA focused more on the development of financial sector, whereas IFC was in charge of the development of capital markets. IBRD/IDA has now come to intervene more and more in capital markets. This change of policy has started in the latter half of the 1980s when the rapid growth of emerging markets and the expansion of FDIs in developing countries took place. The WB Group has further recognized the great impact of capital markets on macro-economy through the collapse of the socialist regimes in Eastern Europe and the former Soviet Union and their transition to a market economy, which has started in the early 1990s,[18]

By the occurrence of the Asian Financial/Currency Crisis in 1997, the WB Group was once again reminded of the importance of a fully-functioning financial sector for sound macroeconomic management. Thus in May 1999, in order to strengthen and monitor financial systems of the member countries, the WB and IMF have jointly launched the Financial Sector Assessment Program (FSAP) on a trial basis. The FSAP programs have been implemented ever since. For further details concerning the establishment of FSAP and the cooperation between the WB and IMF, see the website below: http://www.imf.org/external/np/vc/2001/022301.htm

---

15 WB homepage: http://web.worldbank.org Financial Sector Assessment Program (IMF-WB)
http://www1.worldbank.org/finance/assets/images/Objectives.pdf
http://www1.worldbank.org/finance/html/about.html

16 http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTFINANCIALSECTOR/0,,menuPK:282892~pagePK:162100~piPK:159310~theSitePK:282885,00.html

17 WB Group/Financial Sector Vice Presidency Unit (FSEVPU)

18 「事業戦略調査研究：金融に関する政策支援型協力基礎研究報告書　現状分析編」国際協力事業団、国際協力総合研究所 (March 2001) P109 (Institute for international Cooperation, Japan International Cooperation Agency/JICA)

Issues

The broad objectives of the Financial Sector Vice Presidency Unit (FSEVPU) for accomplishing the Bank's Millennium Development Goals （MDGs）[19] and FSEVPU's strategy for FY 2005-2007 are listed on the following websites:

http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTFINANCIALSECTOR/0,,contentMDK:20270905~menuPK:292800~pagePK:148956~piPK:216618~theSitePK:282885,00.html
http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTFINANCIALSECTOR/0,,menuPK:282890~pagePK:149018~piPK:149093~theSitePK:282885,00.html

Among the many researches listed on the above website, "Measuring Financial Access" by WB/FSEVPU offers the latest data (as of September 2005) regarding financial access of low-income households and enterprises.

In the fight against poverty, the WB Group has set forth the following objectives by providing assistance to stimulate financial system reforms and by directly supporting individual financial institutions.

- ✓ Building a firm foundation for financial services, including the legal and judicial environment and accounting practices;
- ✓ Strengthening banking systems;
- ✓ Fostering the diversity of the financial system and developing capital markets (direct finance)
- ✓ Improving access by the poor and SMEs to financial services

Activities

The WB Group conducted 88 projects under Financial Sector Policy Assistance Loan between 1985 and 1996, the summary table of which is provided in Appendix IV of the JICA/IIC Report (March 2001, available only in Japanese)[20]. In addition, the Bank Group has conducted Economic & Sector Work (ESW) as well as Financial Sector Review by Country, the details of which are summarized in Appendix V of the same JICA/IIC Report.

As for the Bank's FSAP activities, Tables 1 & 2 below show some of the countries that had attended FSAP programs and received their Country Reports, which comprise one or more of the document types listed below. The total number of countries that have attended FSAP programs amounts to 65 countries, including developed and developing countries and the emerging economies. Not many Asian countries have so far participated in the program.

Document Types: 1) Financial Sector Assessment/FSA (i.e. evaluation of condition of the

[19] For the details of the UN's Millennium Development Goals (MDGs) to reduce poverty, see the website below: http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/0,,contentMDK:20104132~menuPK:250991~pagePK:43912~piPK:44037~theSitePK:29708,00.html

[20] 「事業戦略調査研究：金融に関する政策支援型協力基礎研究報告書　現状分析編」国際協力事業団、国際協力総合研究所（March 2001）P109（Institute for international Cooperation, Japan International Cooperation Agency/JICA）

financial sector as a whole and recommendations for reform); 2) Financial System Stability Assessment /FSSA (i.e. evaluation of the financial sector by category); 3) Reports on the Observance of Standards and Codes/ROSC (i.e. assessment of compliance with international standards and codes; 4) Detailed Assessment of the Observation of Standards and Codes/SC (i.e. principle-by-principle assessment); and 5) Technical Notes/SI (i.e. analysis of selected topics). FSAP provides a comprehensive country-by-country assessment of the financial sector.

Table 1. FSAP Country Reports: Asian countries

Hong Kong	FSSA (June 2003)
Japan	FSSA (September 2003)
South Korea	FSA (June 2003), FSSA (May 2004)
Pakistan	FSA (March 2005), FSSA（July 2004）, SI
Philippines	SI
Singapore	FSSA (February 2004)

Note: See the FSAP website below for the list of FSAP participating countries:
http://wbln0018.worldbank.org/FPS/fsapcountrydb.nsf/FSAPexternalcountryreports?OpenPage&count=5000#A

Table 2. FSAP's main approach for the financial sector assessment

1. Soundness	To analyze the soundness of a financial system versus its vulnerabilities and risks that increase the likelihood or potential severity of financial sector crises
2. Infrastructure development needs	To assess the country's development needs in terms of infrastructure, institutions and markets.
3. Compliance	To analyze the country's compliance with the international financial sector standards and codes.

Note: International financial sector standards include Basel Core Principles for Effective Banking Supervision/BCP; IMF Code of Good Practices on Transparency in Monetary and Financial Policies/MFP; OECD Principles of Corporate Governance; and International Accounting and Auditing Standards.

2. International Monetary Fund (IMF)

Activity overview

In September 1998, IMF[21] and WB had jointly established the Bank-Fund Financial Sector Liaison Committee (FSLC), by which both institutions aimed to enhance operational coordination on financial sector issues[22].

Issues

The FSLC stresses the importance of closer Bank-Fund cooperation in order to achieve the following objectives: (See the IMF website at: http://www.imf.org/external/np/mae/fslc/100102.htm#1)

- to detect weaknesses and needed structural improvements in financial systems at an early stage;
- to reduce the likelihood and severity of financial crises by making financial systems more resilient to shocks;
- to improve the design and delivery of financial sector reform programs and technical assistance for member countries; and
- to improve the understanding and implementation of international standards, codes and good practices.

Activities

Financial Sector Assessment Program (FSAP), since its inception in May 1999, has been a primary instrument for Bank-Fund collaboration in financial sector works. Analytical results of the FSAP have been providing a common platform for 1) the Bank's development work, 2) the Fund's surveillance over financial issues and 3) the financial sector technical assistance activities of both institutions.

In recent years, in response to the recommendations given to countries under the FSAP, there have been an increasing number of requests for technical assistances, which cannot be met by the two institutions alone. Therefore, the Committee (IMF/WB), in July 2004, has jointly undertaken the Financial Sector Reform and Strengthening (FIRST) Initiative with a number of national development agencies in UK, Canada, Switzerland and Holland that have shown an interest in financing such technical assistances.

The FIRST Initiative aims at promoting robust and diverse financial sectors in developing countries by providing technical assistances in compliance with the recommendations given in the FSAP Reports (FSA/FSSA) and Reports on the Observance of Standards and Codes (ROSCs). For more information regarding FIRST Initiative, see the IMF website at: http://www.firstinitiative.org/AboutFIRST/charter.cfm

---

[21] IMF website on related issues: http://www.imf.org/external/np/exe/facts/prgf.htm

[22] For more information, see the IMF website at http://www.imf.org/external/np/mae/fslc/100102.htm

3. Asian Development Bank (ADB)

Activity overview

ADB[23] states that "In market-based economies, the financial sector has a special role, as it mobilizes resources and allocates them to those investment that are capable of generating the highest return on capital.… Financial sector development can (therefore) benefit the poor by promoting overall economic growth." Based on this assumption, ADB has been assisting the developing member countries/DMC in the implementation of financial sector enhancement and improvement programs in order to reduce the risk of financial crises and improve access of the poor to financial services. To put it concretely, ADB provides financial and technical assistance projects for the development of banking systems, capital markets, insurance and pension systems, and for the promotion of anti-money laundering efforts. DMCs include Cambodia, China, India, Indonesia, Laos, Myanmar, Philippines, Thailand and Vietnam.

ADB supports the development of financial markets by funding financial institutions in order to enable them to finance small and medium enterprises, micro enterprises, etc. Upon request, ADB also co-assists the creation of sustainable financial institutions with other like-minded institutions. For instance, ADB provides assistance in the form of equities, loans or guarantees to the following private sector institutions: 1) banks, 2) capital market institutions (stock and fixed income exchange, rating agencies, etc.), 3) leasing or non-bank financial institutions, 4) insurance companies, and 5) various types of funds including private equity funds and venture capital funds.

Issues

ADB intends to pursue the following new initiatives in response to the needs of the private sector in DMCs: (See the following ADB websites: http://www.adb.org/PrivateSector/default.asp
http://www.adb.org/PrivateSector/Finance/initiatives.asp)

・Local currency financing（to provide additional risk-taking capacity in local currency）

・Trade Finance Facilitation Program（to encourage trade among DMCs）

・Housing finance（to promote affordable housing for low and middle-income families）

・Resolution of non-performing assets（to deal with disposal of NPAs in DMCs's banking sectors）

Activities

For ADB's activity results as of end-December 2004, see the ADB website below:
http://www.adb.org/About/glance.asp#cofinancing

[23] ADB related websites: http://www.adb.org/PrivateSector/Finance/default.asp
http://www.adb.org/PrivateSector/Finance/fin_sector.asp
http://www.jacses.org/sdap/inspection/whatisadb.html
http://www.microfinancegateway.org/content/article/detail/23102
http://www.adb.org/FinancialSector/default.asp
http://www.adb.org/FinancialSector/banking-system.asp

4. International Fund for Agricultural Development (IFAD)

IFAD[24], since its inception in 1977, has continuously provided credit for rural development projects in low-income and food-scarce regions in order to reduce poverty, increase incomes and improve the quality of life. With the conviction that "vulnerable groups can and do contribute to economic growth," IFAD has also focused on developing responsive rural financial institutions in addition to financing rural development. IFAD, nevertheless, is strictly confined to providing funds as a financial institution, and thus requires a strong partnership with governments, NGOs and international institutions for actual implementation of projects.

The Rural Micro-Enterprise Finance Project (RMFP) in the Philippines (1996-2002), for instance, was the project conducted jointly with ADB. In this project, IFAD-ADB had implemented the following activities based on the firm conviction that "access by the poor to adequate and appropriate financial services is a critical factor in helping to break the poverty cycle." In order to reduce poverty, create employment opportunities and enhance incomes of the bottom 30% of the rural population, the project provided 1) credit to MFIs for on-lending to final borrowers; and 2) institutional development loan for financial management training, MIS and other institutional development of MFIs.

IFAD, as the second phase of RMFP, decided to finance the Rural Microenterprise Promotion Program in April 2005.

5. United Nations Development Programme (UNDP)

UNDP[25] in 1998 has initiated the Global Micro Start Program in 25 of its 135 country offices to implement microfinance assistance programs.

Since the mid 1990s, UNDP has started building capacity of new or existing MFIs (NGOs and banks) on the assumption that "a key to poverty eradication is generating sustainable livelihood (to which) microfinance is a key instrument." In practice, UNDP designated 5-10 MFIs in each country and provided them with funds to capitalize their loan funds; hire new staffs and cover their operational costs; and had one of the experienced international practitioners (e.g. Grameen bank, ASA, BRAC, SEWA, etc.) to provide technical guidance and training to the participating MFIs.

UNDP Philippines Office, for instance, conducted Microfinance Support Program (MSP) as part

---

[24] IFAD homepage: http://www.ifad.org/evaluation/public_html/eksyst/doc/prj/region/pi/philippines/rmfp.htm
(Overview of IFAD)
http://www.mofa.go.jp/mofaj/gaiko/oda/shiryo/hakusyo/04_hakusho/ODA2004/html/siryo/sr3320017.htm
(Japanese)
ADB-IFAD http://www.ifad.org/evaluation/public_html/eksyst/doc/prj/region/pi/philippines/rmfp.htm

[25] UNDP related websites: MicroStart Pilot Programme
http://www.mofa.go.jp/region/africa/ticad2/list98/privatesec/2_1_61.html
UNDP, "MicroStart Takes Off", http://www.microcreditsummit.org/newsletter/resources1.htm
UNDP, MSSP: http://www.undp.org.ph/news/readnews.asp?id=81
UNCDF homepage: http://www.uncdf.org/english/microfinance/

of the Global Micro Start Program for the target 20 MFIs between June 1996 and June 2002. As the second phase of MSP, UNDP Philippine Office launched the Microfinance Sector Strengthening Project (MSSP) (January 2003-June 2004), which was designed to continue providing technical assistance to the three promising MFIs (CARD, CCT and Life Bank) that had participated in the previous project. The third phase of the project is going to be implemented in 2005 or later.

6. U.S. Agency for International Development (USAID)

USAID[26] is an independent federal government agency under the U.S. Department of State. It was reformed as an independent organization in 1999 ending its temporary status under the direct supervision of the President.[27] USAID, constituting about 60% of the total U.S. foreign aid budget (64% in 1996),[28] continues to carry out all foreign aid activities (i.e. planning, approval and implementation of programs and projects including grants, credit and technical assistances) at Overseas Regional offices. In other words, USAID seems to have similar features of the Economic Cooperation Department of Ministry of Foreign Affairs (MOFA), Japan International Cooperation Agency (JICA) and Japan Bank of International Cooperation (JBIC). In Japan, MOFA supervises the entire ODA by setting general ODA principles and drawing up the mid-term policies, whereas actual ODA works are allotted to various organizations: MOF is in charge of investments and contributions to international organizations; and MOFA (grants), JICA (technical assistance) and JBIC (credits) take charge of executing bilateral aid[29].

Activity overview

The Bureau for Economic Growth, Agriculture and Trade (EGAT) was established in FY 2002 as one of the three pillar bureaus of USAID: EGAT; Global Health Bureau on HIV and AIDS; and Democracy, Conflict and Humanitarian Assistance (DCHA) Bureau. It is the bureau specifically in charge of financial sector activities that aim to reduce poverty and promote prosperity in developing and transition countries.[30]

In end-2003, EGAT has completed the report "Financial Sector Strategy" (published in

---

[26] USAID related websites: http://www.usaid.gov/about_usaid/usaidorg.html
http://www.usaid.gov/our_work/economic_growth_and_trade/eg/financial_markets.html
http://www.microcreditsummit.org/newsletter/resource2.htm

[27] Before the 1991 reform, USAID was under the supervision of a temporary organization called International Development Cooperation Agency (IDCA), but was given an independent and permanent status under the Department of State in end-1998 by the enactment of the Foreign Affairs Reform and Restructuring Act.

[28] http://www.jbic.go.jp/japanese/research/report/review/pdf/3-3.pdf JBIC「主要援助国・機関の動向について」31 「3．機構」脚注 17 も参照のこと。(Japanese)

[29] http://www.mofa.go.jp/mofaj/gaiko/oda/index/odaproject/index.html ODA 入門⇒経済協力 Q&A ⇒Q7.ODA の実施体制 (Japanese)
http://www.jbic.go.jp/japanese/research/handbook/pdf/04.pdf "Major Economic Cooperation Agencies in Japan" JBIC (Japanese)

[30] EGAT activities: http://www.usaid.gov/policy/budget/cbj2005/cent_prog/pdf/egat_cbj_fy05.pdf

December 16, 2003), which will be used to guide the USAID missions in strengthening the financial sector development programs. Since 1988, USAID has constantly provided technical assistances, although limited in amount, in order to enhance financial sector reform and development. In Financial Sector Strategy report, USAID/EGAT reconfirmed the impacts of financial sector projects on host country economic growth and poverty reduction. What is more important, it has acknowledged the fact that the global trend in financial sector assistance has changed after the Asian Financial/Currency Crisis, after which the conventional wisdom that "financial sector liberalization in developing countries is beneficial" has been re-evaluated. USAID/EGAT concretely stated that its financial sector assistance would focus, in compliance with the global trends, on 1) establishment of a solid financial systems, laws, and regulations in order to reduce the risk of financial crises; 2) compliance with international standards for transparency and accountability; and 3) technical assistance on international standards, principles and best practices targeted at microfinance institutions and non-bank financial institutions, which are important since they serve millions of clients.

Activities

Financial Sector Strategy report shows the detailed information about the total number and the amount of the USAID's technical assistance and investment projects.[31]

As one of the USAID's financial sector programs that directly contribute to poverty reduction, Microenterprise Initiative was launched in 1994 to provide assistance to the poorest of the poor (especially women) and micro enterprises through networks of NGOs, credit unions and financial institutions.

The USAID Philippines Office, for instance, has conducted various microfinance assistance projects including the Microenterprise Access to Banking Services (MABS) Program, Credit Union Empowerment and Strengthening (CUES) Program and Credit Policy Improvement Program (CPIP). Various microfinance assistance projects in fact have been implemented in other Asian countries such as Bangladesh, Cambodia, India and Nepal.

Issues

In Financial Sector Strategy report, USAID has pointed out its goals and programmatic objectives regarding its financial sector development assistance activities.[32] According to this, USAID goals are to enhance economic growth, increase in employment opportunities and poverty reduction by 1) increasing the efficiency of financial intermediation and the allocation of savings to the most productive private sector activities and 2) deepening financial markets by expanding access and

[31] USAID, Financial Sector Strategy (Dec. 16, 2003) P6: Chapter 5, "USAID' S Support of the Financial Sector" and Appendix 1: "USAID Financial Sector Activity 1988-2000"
[32] Ibid. PP9-11: "II. Financial Sector Strategy"

increasing financial products and services.

As for the programmatic objectives, USAIDS aims to coordinate closely with the International Financial Institutions (IFCs) to assess county-specific diagnostics and to develop, implement and monitor financial sector projects as well as provide expertise, capital and know how required by those projects. At the same time, USAID aims to improve the quality of life and realize social security of the country not only by enhancing the effectiveness of financial sector activities, but also by increasing the financial access in non-financial sector activities such as trade, agriculture, enterprise development, natural resource management, education, urban development remittances, safety nets and household finance. This confirms the importance of taking into account the financial sector components such as the overall financial sector environment, international standards and best practices, even when dealing with non-financial sector projects.

7. Deutsche Gesellschaft fùr Techniche Zussamenarbeit（GTZ）

GTZ[33] is an international cooperation enterprise owned by the German Federal Government. It aims to support sustainable development by providing solutions to political, ecological, and social issues in the globalized world. Its main client is the German Federal Ministry for Economic Cooperation and Development (BMZ) and other ministries as well as international clients such as the European Commission, the United Nations and the World Bank. GTZ currently implements about 2700 projects and programs in over 130 countries.

GTZ works in the following six fields of activities:（http://www.gtz.de/en/themen/857.htm）

1) Rural Development：Poverty and hunger, agriculture and food, natural resources, etc.
2) Economic Development and Employment : Economic policy, vocational training, financial systems, etc.
3) Environment and Infrastructure: Environmental policy, social and ecological standards, etc.
4) Good Governance: Democracy and rule of law, decentralization and development finance, etc.
5) Social Development: Health, education, etc.
6) Cross-sectoral themes: HIV/AIDS control, poverty, etc.

In the “Economic Development and Employment” field, GTZ provides technical assistances “to develop efficient economic, financial and training systems in order to increase competitiveness and sustainable employment.” Especially it aims to provide for disadvantaged

[33] GTZ related websites: For corporate profile, see http://www.gtz.de/en/ “About us” → “Corporate Profile” → “Corporate Identity” For activity results, see “Corporate Profile” → “Facts and figures” http://www.gtz.de/en/unternehmen/1722.htm

segments of the population, which makes great contribution to poverty reduction.[34]

GTZ's assistance to financial sector development comprises one component of the Economic Development and Employment activities. It focuses on strengthening microfinance institutions in order to improve access o financial services for the poor.[35]

GTZ is currently conducting microfinance projects in more than 20 countries, contributing to the United Nations Millennium Development Goals (MDGs).[36]

In 2003, GTZ has introduced HIV/AIDS Workplace Policy, which is intended to protect its workers from the epidemic. Especially in southern Africa, HIV/AIDS has been causing a profound impact, through absenteeism and a loss of qualified personnel, on the private sector economies by raising human resources costs. In order to cope with the situation, GTZ has thus developed HIV/AIDS Workplace Programme in the form of public private partnerships (PPP).[37]

[34] http://www.gtz.de/en/themen/wirtschaft-beschaeftigung/869.htm
[35] http://www.gtz.de/en/themen/wirtschaft-beschaeftigung/finanzsysteme/872.htm
[36] http://www.gtz.de/en/themen/wirtschaft-beschaeftigung/finanzsysteme/2994.htm
[37] http://www.gtz.de/en/unternehmen/1740.htm http://www.gtz.de/en/unternehmen/2980.htm

(2) Sector share of lending and technical assistance of multilateral development finance institutions

Loans etc.

World Bank Group (IBRD＋IDA)

Changes in Share of Total IBRD＋IDA Lending by Region

	1996	1997	1998	1999	2000	2001	2002	2003	2004
Africa	13%	9%	10%	7%	14%	20%	19%	20%	20%
East Asia & Pacific	25%	25%	34%	34%	20%	12%	9%	12%	13%
Europe & Central Asia	20%	26%	18%	18%	20%	16%	29%	13%	18%
Latin America & the Caribbean	21%	24%	21%	27%	27%	31%	22%	31%	27%
Middle East & North Africa	7%	5%	3%	5%	5%	3%	3%	6%	5%
South Asia	14%	11%	14%	9%	14%	19%	18%	16%	17%
Amount of Total Lending (billion:$)	21.4	19.1	28.6	29.0	15.3	17.3	19.5	18.5	20.1

Changes in Share of Total IBRD＋IDA Lending by Sector

	1996	1997	1998	1999	2000	2001	2002	2003	2004
Agriculture, Fishing & Forestry	12%	19%	10%	10%	7%	8%	6%	7%	7%
Economic Policy					8%	8%			
Education	8%	5%	11%	5%	4%	5%	7%	13%	8%
Electric Power & Other Energy	15%	10%	7%	2%	5%	5%			
Environment	2%	1%	3%	2%	3%	3%			
Energy & Mining							10%	6%	5%
Finance	6%	6%	22%	10%	12%	13%	15%	8%	9%
Health & Other Social Services							12%	19%	15%
Industry	1%	1%	0%	2%					
Industry & Trade							7%	4%	4%
Mining & Other Extractive	3%	2%	5%	1%	0%	0%			
Multisector	7%	11%	6%	35%	5%	0%			
Oil, Gas & Coal	0%	1%	0%	0%	1%	0%			
Population, Health & Nutrition	11%	5%	7%	4%	6%	6%			
Private Sector Development					1%	3%			
Information & Communication							1%	1%	<1%
Public Sector Management	9%	5%	7%	5%	15%	15%			
Social Protection				9%	7%	10%			
Social Sector	4%	7%	5%						
Telecommunications/Informatics	0%		0%	0%	1%	0%			
Law & Justice & Public Administration							27%	20%	25%
Transportation	13%	19%	11%	10%	11%	17%	12%	15%	19%
Urban Development	4%	4%	4%	2%	4%	3%			
Water Supply & Sanitation	4%	4%	2%	3%	6%	3%			
Water, Sanitation & Flood Protection							3%	7%	8%
Amount of Total Lending (billion:$)	21.4	19.1	28.6	29.0	15.3	17.3	19.5	18.5	20.1

(source: annual report)

IBRD

Changes in Share of Total IBRD Lending by Region

	1996	1997	1998	1999	2000	2001	2002	2003	2004
Africa	−	0%	0%	0%	1%	−	<1%	<1%	−
East Asia & Pacific	29%	28%	42%	39%	23%	11%	9%	16%	15%
Europe & Central Asia	26%	31%	21%	20%	25%	21%	42%	19%	27%
Latin America & the Caribbean	28%	31%	27%	32%	36%	46%	37%	50%	45%
Middle East & North Africa	9%	5%	3%	5%	7%	3%	4%	8%	9%
South Asia	8%	4%	6%	3%	9%	19%	8%	7%	4%
Amount of Total Lending (billion:$)	14.5	14.5	21.1	22.2	10.9	10.5	11.5	11.2	11.0

Changes in Share of Total IBRD Lending by Sector

	1996	1997	1998	1999	2000	2001	2002	2003	2004
Agriculture, Fishing & Forestry	8%	19%	7%	8%			5%	5%	6%
Agriculture & Environment					14%	12%			
Economic Policy					8%	1%			
Finance & Private Sector Development					15%	17%			
Human Development					16%	21%			
Education	6%	5%	9%	4%			7%	12%	5%
Electric Power & Other Energy	20%	11%	5%	2%					
Environment	2%	0%	4%	1%					
Energy & Mining							6%	5%	3%
Finance	8%	7%	29%	12%			18%	10%	11%
Industry	1%	1%	−	3%					
Mining & Other Extractive	4%	2%	6%	1%					
Multisector	5%	9%	6%	40%					
Oil, Gas & Coal	0%	1%	1%	−					
Population, Health & Nutrition	10%	2%	4%	2%					
Public Sector Management	7%	5%	8%	5%	14%	13%			
Social Sector	2%	9%	4%	10%					
Infrastructure					16%	26%			
Telecommunications/Informatics	0%		0%	−					
Health & Other Social Services							12%	18%	16%
Industry & Trade							5%	4%	6%
Information & Communication							1%	<1%	<1%
Law & Justice & Public Administration							31%	23%	24%
Transportation	15%	21%	10%	9%			13%	15%	23%
Urban Development	4%	4%	4%	1%	5%	2%			
Water Supply & Sanitation	5%	3%	2%	2%					
Water, Sanitation & Flood Protection							2%	8%	6%
Other					12%	8%			
Amount of Total Lending (billion:$)	14.5	14.5	21.1	22.2	10.9	10.5	11.5	11.2	11.0

(source: annual report)

IDA

Changes in Share of Total IDA Lending by Region

	1996	1997	1998	1999	2000	2001	2002	2003	2004
Africa	40%	36%	38%	30%	47%	50%	47%	51%	45%
East Asia & Pacific	17%	17%	10%	15%	11%	15%	10%	7%	<10%
Europe & Central Asia	7%	11%	10%	14%	7%	8%	8%	8%	6%
Latin America & the Caribbean	6%	3%	5%	9%	4%	7%	2%	2%	4%
Middle East & North Africa	5%	3%	3%	6%	4%	2%	1%	3%	2%
South Asia	26%	30%	34%	27%	27%	18%	32%	29%	33%
Amount of Total Lending (billion:$)	6.9	4.6	7.5	6.8	4.4	6.8	8.1	7.3	9.0

Changes in Share of Total IDA Lending by Sector

	1996	1997	1998	1999	2000	2001	2002	2003	2004
Agriculture, Fishing & Forestry	21%	16%	16%	15%			8%	9%	9%
Agriculture & Environment					12%	14%			
Economic Policy					10%	8%			
Finance & Private Sector Development					8%	14%			
Human Development					38%	32%			
Education	11%	6%	16%	8%			8%	14%	13%
Electric Power & Other Energy	5%	6%	12%	1%					
Environment	1%	5%	2%	3%					
Energy & Mining							16%	7%	7%
Finance	3%	4%	2%	4%			10%	5%	6%
Industry	0%	1%	1%	1%					
Mining & Other Extractive	2%	0%	0%	0%					
Multisector	11%	18%	9%	21%					
Oil, Ga & Coal	0%	0%	0%	0%					
Population, Health & Nutrition	13%	15%	14%	9%					
Public Sector Management	13%	4%	5%	6%	8%	11%			
Social Sector	8%	1%	5%	6%					
Infrastructure					13%	14%			
Telecommunications/Informatics	0%		0%	0%					
Health & Other Social Services							13%	19%	14%

ADB（OCR+ADF）

Changes in Share of Total ADB (OCR＋ADF) Lending by Region

	1996	1997	1998*	1999	2000	2001	2002	2003	2004
East Asia & Pacific			76%	64%	46%	40%	39%	39%	50%
Central Asia			4%	2%	6%	3%	4%	3%	2%
South Asia			19%	32%	47%	57%	54%	57%	48%
Africa			0%	–	–	–	0%	–	
Regional			1%	1%	1%	0%	3%	1%	
Amount of Total Lending (billion:$)			4.2	5.0	5.9	5.3	5.7	6.1	4.1

Note: OCR: Ordinary Capital Resurces ADF：Asian Development Fund

Changes in Share of Total ADB (OCR＋ADF) Lending by Sector

	1996	1997	1998*	1999	2000	2001	2002	2003	2004
Agriculture & Natural Resources		11%	7%	9%	18%	11%	9%	6%	0%
Education									1%
Energy		7%	7%	14%	20%	12%	18%	12%	19%
Finance		50%	28%	1%	3%	11%	15%	8%	7%
Social Infrastructure		19%	12%	28%	24%	9%	12%	19%	
Health, Nutrition And Social Protection									6%
Industry & Trade									0%
Industry & Nonfuel Minerals		0%	0%	8%	6%	2%	1%	–	
Law, Economic Management & Public Policy									13%
Transport & Communications		10%	25%	20%	23%	27%	28%	42%	44%
Water Supply, Sanittion & Waste Management									0%
Multisector		0%	16%	14%	2%	14%	3%	8%	10%
Others		4%	5%	6%	4%	14%	14%	5%	
Amount of Total Lending (billion:$)		9.4	6.0	5.0	5.9	5.3	5.7	6.1	4.1

*1998 figures by Region are net transfer of resources defined as disbursements less repayments and interest/charges received, which includes private sector loans and net equity investments. 1998 figures by Sector are Gross figures.

IDB

Changes in Share of Total IDB Lending by Country

	1996	1997	1998	1999	2000	2001	2002	2003	2004
Argentina			38%	5%	16%	21%	–	29%	9%
Brazil			16%	50%	12%	26%	15%	5%	43%
Chile			–	3%	9%	1%	0%	2%	0%
Colombia			4%	11%	6%	10%	2%	27%	12%
Mexico			3%	10%	27%	14%	22%	7%	8%
Peru			6%	5%	7%	4%	11%	8%	6%
Amount of Total Lending (billion:$)			10.1	9.5	5.3	7.9	4.5	6.8	6.0

Note: Lending figures include those of loans, technical cooperation operations, small projects and Multilateral Investment Fund (MIF) operations authorized by the Bank.

Changes in Share of Total IDB Lending by Sector

	1996	1997	1998	1999	2000	2001	2002	2003	2004
Competitivenes									
Energy			8%	4%	8%	4%	3%	3%	2%
Transportation & Communication			8%	7%	8%	5%	10%	3%	10%
Agriculture & Fisheries			1%	1%	3%	9%	3%	1%	2%
Industry, Mining & Tourism			11%	13%	6%	13%	11%	2%	0%
Multisector Credit and Preinvestment								1%	17%
Science & Technology			0%	3%	3%	0%	0%	0%	0%
Trade Financing								1%	1%
Support for Private Sector								7%	
Multisector Infrastructure									2%
Capital Markets								0%	2%
Capital Market Development									
Social Sector Reform									
Social Investment			11%	26%	12%	23%	42%	52%	42%
Water & Sanitation			8%	5%	3%	2%	3%	2%	1%
Urban Development			7%	2%	13%	2%	6%	5%	3%
Education			3%	4%	5%	9%	3%	4%	2%
Health			1%	5%	0%	1%	0%	6%	2%
Environment			1%	1%	3%	1%	3%	0%	1%
Microenterprise			2%	1%	0%	0%	1%	0%	0%
Reform & Modernization of the State									
Public Sector Planning & Reform								1%	
Reform & Modernization of State			38%	25%	36%	31%	15%		
Export Financing			0%	0%	0%	0%	0%		
Reform & Public Sector Support									11%
Financial Sector Reform								7%	2%
Fiscal Reform								1%	1%
E-Government									0%
Decentralization Policies								1%	1%
Modernization & Admin. of Justice								0%	0%
Modernization of Legislatures								0%	
Planning & State Reform									0%
Parliamentary Modernization									0%
Civil Society									0%
Strengthening of Civil Society								0%	
Trade Policy Development								0%	
Trade Policy Support									0%
Others									
Others			0%	3%	0%	0%			
Preinvestment & Other							0%		
Amount of Total Lending (billion:$)			10.1	9.5	5.3	7.9	4.5	6.8	6.0

Note: Lending figures include those of loans, technical cooperation operations, small projects and Multilateral Investment Fund (MIF) operations authorized by the Bank.

(source: annual report)

AfDB

Changes in Share of Total AfDB Lending by Region

	1996	1997	1998	1999	2000	2001	2002	2003	2004
Central Africa				4%	5%	5%	9%	8%	13%
East Africa				9%	16%	29%	10%	13%	21%
North Africa				43%	27%	35%	41%	23%	30%
Southern Arica				27%	24%	9%	7%	15%	15%
West Africa				15%	23%	21%	31%	25%	8%
Multiregional				2%	6%	1%	1%	16%	13%
Amount of Total Lending (billion:UA)				1.2	1.1	1.8	1.6	1.8	1.7

Note:UA: West African Unit of Account) 1UA＝1SDR(＝1.429270 US$ 2005.12.30)

Changes in Share of Total AfDB Loans & Grants by Sector

	1996	1997	1998	1999	2000	2001	2002	2003	2004
Agriculture & Rural Development				11%	16%	15%	13%	13%	16%
Social (Education, Health & Other)				12%	21%	11%	18%	19%	9%
Water Supply & Sanitation				4%	9%	4%	4%	16%	7%
Power Supply				4%	4%	5%	12%	8%	3%
Communication				–	–	5%	6%	–	–
Transport				17%	15%	19%	8%	17%	29%
Finance				32%	18%	15%	21%	17%	10%
Multisector				20%	16%	23%	17%	7%	26%
Industry, mining & Quarrying				0%	0%	2%	1%	2%	–
Urban Development				–	0%	–	–	–	–
Environment				–	0%	1%	–	0%	0%
Other									
Amount of Total Loans & Grants (billion:UA)				1.2	1.1	1.8	1.6	1.8	1.7

(source: annual report)

EBRD

Changes in Share of EBRD Commitments by Region

	1996	1997	1998	1999	2000	2001	2002	2003	2004
Central Europe & the Baltic States		23%	38%	35%	39%	44%	32%	31%	23%
South-eastern Europe		12%	14%	12%	14%	19%	22%	26%	25%
Western CIS & the Caucasus		14%	13%	15%	19%	6%	7%	5%	14%
Russia		33%	23%	8%	22%	22%	33%	30%	30%
Central Asia		16%	9%	18%	7%	9%	6%	8%	8%
Regional		2%	4%	12%					
Amount of Total Lending (billion:€)*		2.3	2.4	2.2	2.7	3.7	3.9	3.7	4.1

Note: 1997 & 1998: billions of ECU

Changes in Share of EBRD Financing Committed by Sector

	1996	1997	1998	1999	2000	2001	2002	2003	2004
Commerce, tourism		4%	5%						
Property, tourism & shipping				5%	3%	4%	2%	4%	5%
Finance, business		26%	39%						
Agribusiness				10%	13%	8%	11%	9%	10%
Agriculture, forestry, fishing		2%	2%						
General industry					15%	17%	10%		
Natural resources				8%	9%	5%	7%	6%	11%
Transport, storage			9%						
Transport		9%		15%	8%	11%	14%	14%	10%
Power and energy utilities				7%	10%	10%	6%	8%	7%
Energy efficiency				2%	1%	1%	2%	1%	1%
Energy/ power generation		21%	10%						
Telecommunications, informatics and media				8%	5%	8%	6%	5%	
Telecommunications		6%	8%						6%
Extractive industries			8%						
Financial Institutions				34%	29%	30%	30%	33%	36%
Infrastructure (Municipal infrastructure & transport)				7%					
Municipal and environmental infrastructure					8%	5%	12%	5%	2%
Manufacturing		28%	15%					14%	12%
Community/ social services			4%						
Other Sectors		3%		4%					
Amount of Total Lending (billion:€)*		2.3	2.4	2.2	2.7	3.7	3.9	3.7	4.1

Note: 1997 & 1998: billions of ECU

(source: annual report)

TA (Technical Assistance)

ADB

ADB Technical Assistance by Sector

	1996	1997	1998	1999	2000	2001	2002	2003	2004
Agriculture & Natural Resources		25%	18%	13%	23%	16%	13%	14%	11%
Education									8%
Energy		5%	4%	11%	5%	5%	7%	7%	6%
Finance		7%	20%	9%	6%	6%	10%	6%	5%
Health, Nutrition and Social Protection									2%
Industry & Trade									4%
Law, Economic Management and Public Policy									17%
Industry & Nonfuel Minerals		0%	0%	3%	1%	2%	2%	1%	
Social Infrastructure		36%	22%	29%	24%	19%	14%	29%	
Transport & Communications		20%	17%	17%	22%	25%	23%	26%	26%
Water Supply, Sanitation and Waste Management									4%
Multisector		0%	3%	8%	5%	8%	5%	7%	17%
Others		8%	16%	11%	14%	18%	25%	12%	
Total Amount (billion:$)		0.489	0.330	0.340	0.382	0.297	0.400	0.385	0.335

(source: annual report)

EBRD

EBRD Technical Cooperation Commitments by Sector

	1996	1997	1998	1999	2000	2001	2002	2003	2004
SMEs		37%							
Privatization		3%							
Energy		11%		8%	15%	6%			
Energy/power generation			8%						
Finance		13%							
Finance, business			43%	59%	44%	61%			
CEALs, Co-financing lines and RVFs**			14%						
Transport, storage			11%	7%	7%	7%			
Transport		7%							
Environment		6%							
Restructuring		15%							
Agribusiness		1%							
Telecommunications		1%	0%	2%	2%	1%			
Legal		2%							
Miscellaneous		3%							
Community/social services			11%	4%	7%	7%			
Manufacturing			11%	18%	21%	13%			
Industry		2%							
Extractive industries			0%	1%	0%	0%			
Agriculture, forestry, fishing			1%	0%	1%	1%			
Commerce, tourism			–	0%	–	0%			
Tourism		0%							
Construction			0%	1%	3%	5%			
Non-classifiable establishments				–					
Total Amount (billion: €)*		0.103	0.080	0.089	0.068	0.128	0.102	0.073	n.a.

Note: * 1997 & 1998: billions of ECU

**Central European Agency Lines, Regional Venture Funds

(source: annual report)

(3) Technical assistance projects by international organizations and donor countries in Vietnam's financial sector

FINANCIAL SECTOR ASSISTANCE PROJECTS IN VIETNAM
Banking Donor Working Group
As of November 14, 2003

REFORM AREA	TASK	DONOR / PROVIDER	STATUS	START DATE
State Owned Commercial Banks (SOCBs)				
Bank Restructuring	Support for implementation of restructuring plan for ICB	World Bank /ASEM Trust Fund	Completed	2001
	Twinning arrangement for ICB	AFD / France	Ongoing	Nov. 2001
	Twinning arrangement for VCB	Dutch Embassy	Ongoing	2003
	Support for implementation of restructuring plan for BIDV	World Bank /ASEM Trust Fund	Ongoing	2002
	Business strategy for VCB	GTZ	Ongoing	2002
	Reform internal auditing for VCB	GTZ	Ongoing	2002
	Plan for SOCB Restructuring	World Bank / PHRD Trust Fund	Completed	Mar. 2000
	Bank corporate governance	World Bank / ASEM Trust Fund	Completed	Nov. 2001
	Mekong Housing Bank IAS Audits, Assessment, and Preparation for Strategic Partnering / Equitization	World Bank / ASEM Trust Fund	Proposed	2003
	Mekong Housing Bank Diagnostic Review	Seco (Swiss Embassy) / Private Sector	Ongoing	Nov. 2003
	Workshops in Bank Restructuring	Seco (Swiss Embassy) / Private Sector	Approved	Dec 2003 –
Asset Resolution	Planning the establishment of a national AMC	World Bank / ASEM Trust Fund	Completed	May. 2000
	Development of AMCs in each of the SOCBs	World Bank / ASEM Trust Fund	Completed	Dec. 2001
	Non-performing loan resolutions for Joint Stock Banks	GTZ	Ongoing	2004
	Workshop and training on AMCs	World Bank / ASEM Trust Fund	Completed	Dec. 2001
Payment System	Payment System and Bank Modernization Project	World Bank	Ongoing	1996
	Second Payment System and Bank Modernization Project	World Bank	Proposed	2005
Auditing	Enhancing VAS for Banks (Application of IAS)	World Bank / PHRD Trust Fund	Completed	Dec. 2001
	Workshop on IAS Application	World Bank / PHRD Trust Fund	Completed	Dec. 2001
	Audit Pre-work for ICB	World Bank / ASEM Trust Fund	Completed	Sept. 2001
	IAS Audits 2003-2004 for ICB	World Bank / ASEM Trust Fund	Proposed	2003
	IAS Audit 2000 for ICB	USAID	Completed	Sept. 2001
	IAS Audit 2001 for ICB	USAID	Completed	Nov. 2002
	IAS Audit 2000 for VCB	Danida (Denmark)	Ongoing	
	Pilot Training Internal Auditing for VCB	GTZ	Completed	Jan. 2002
	Audit Training series	GTZ	Ongoing	Apr. 2003
Joint Stock Banks (JSBs)				
Bank Restructuring	Blue print for JSB restructuring and consolidation	World Bank / PHRD Trust Fund	Completed	1999
	Management information system diagnostic	World Bank / ASEM Trust Fund	Completed	Dec. 2001
	Assessment of 10 JSBs	World Bank / ASEM Trust Fund	Completed	Dec. 2001
Risk Management	Review risk management procedures and techniques	World Bank / AusAID	Completed	Dec. 2001
	Risk management training	World Bank / ASEM Trust Fund	Completed	Dec. 2001
	Risk Management for Joint Stock Banks	GTZ	Ongoing	2003
	Training of the JSBs credit departments, training of BRC in risk management	Seco (Swiss Embassy) / Private Sector / BTC	Ongoing	1998 – 2004

REFORM AREA	TASK	DONOR / PROVIDER	STATUS	START DATE
	State Bank of Vietnam (SBV)			
Organizational Change	Banking Sector Review	World Bank	Completed	2002
	Training in change management	Unidentified—to be coordinated by MPDF—	Proposed	Nov. 2002
	SBV restructuring	GTZ	Ongoing	2002
	Long-term training and technical assistance to the SBV on supervisory, regulatory and banking services issues	CIDA	Proposed	Feb. 2004
	SBV Capacity Building in Regulation, Supervision, and Development	World Bank / ASEM Trust Fund	Proposed	2003
Supervision / Safety-Soundness Standards	Assistance in directing Credit Manual Preparation	IMF / World Bank	Ongoing	2001
	Review on-site inspection manual	World Bank / PHRD Trust Fund	Completed	2001
	Establish chair for bank auditing at Banking Institute	GTZ	Ongoing	2000
	Training on Bank Auditing	GTZ	Completed	2001
	Strengthening banking supervision/auditing	GTZ	Ongoing	2000
	Training IAS	GTZ	Ongoing	2003
	Transition of VAS to IAS for banks and improving financial reporting	World Bank / ASEM Trust Fund	Proposed	2003
	Training on U.S. financial system and money laundering regulations	Private Sector/US Government	Completed	Feb. 2003
	Anti-money laundering- assessment and assistance for drafting decree, action plan for FIU establishment	ADB	Approved	Sept. 2003
	Full Basel Core Principle Assessment of the SBV	World Bank / ASEM Trust Fund	Proposed	2003
	Assessment of the implementation of a CAMELS-based ratings system for the supervision of banks	World Bank / Irish CTF	Ongoing	2003
	Assessment of the bank reporting system	World Bank / New Zealand CTF	Ongoing	2003
Legal Framework for Banking	Review of State Bank and Credit Institutions Laws	GTZ	Ongoing	2003
	Technical advice on the State Bank and Credit Institutions Laws	CIDA	Ongoing	Jun. 2003
	Review of the Banking Sector Legal and Regulatory Framework	World Bank / ASEM Trust Fund	Completed	May. 2000
	Introduction of international standards (Basel Principles)	GTZ	Ongoing	
Credit Information	Review and development of key functions of the Credit Bureau (CIC)	World Bank / ASEM Trust Fund	Completed	Dec. 2001
	Workshop on CIC	World Bank / ASEM Trust Fund	Completed	Dec. 2001
	Assessment of the CIC	World Bank / Spanish CTF	Proposed	Nov. 2003
International Agreements	Assessment of and technical workshops on the financial sector implications of the US-Vietnam Bilateral Trade Agreement	USAID-STAR Project	Ongoing	Nov. 2002
	Review and amendment of State Bank and Credit Institutions Laws in support of the US-Vietnam BTA and WTO accession	USAID-STAR Project	Ongoing	Nov. 2002
Reserves Management	Training in Reserves Investment	Private Sector/US Government	Completed	Jan. 2003
	Reserves Management Capacity Building	SIDA/Swedish Central Bank	Proposed	May. 2003
	Safeguards Assessment	IMF/Treasurer's Department	Ongoing	2001
Monetary Policy	Introduction of new monetary policy instruments	GTZ	Ongoing	Thru 2003
	Financial market/policies Train the trainer, HR management/appraisal, empirical research skills	Seco (Switzerland) / Graduate Institute for International Studies	Ongoing	Phase I: 1997- 1999 Phase II: 2000-2002
	Training in Macroeconomic model-building and forecasting	INSEE/Banque de France/ ADETEF	Ongoing	2002
	Workshops in Macroeconomic Policy Coordination	IMF	Ongoing	2002
	Staff exchange	Sida/Swedish Central Bank	Proposed	2003
	Research / seminars on monetary statistics	JICA	Completed	Jul. 2002

REFORM AREA	TASK	DONOR / PROVIDER	STATUS	START DATE
Money Market Development	Training SBV and Commercial Bankers, Monetary Instruments	GTZ	Ongoing	2002
	Drafting regulations on Money Market Development and Repurchase Agreements	ADB	Completed	2002
	Assistance in development of a database for tracking money market transactions	ADB	Approved	May. 2003
SME Credit Policies	Pilot Study on Soft Infrastructure development for better Financial Access of SME	JBIC	Ongoing / Proposed	Mar. 2003
	SBV Capacity Building as Executing Agency for SME Credit Policies	JBIC	Ongoing	Dec. 2001
	SME Finance Project	JBIC	Ongoing	1999
	SME Credit Line (ICBV)	KfW	Ongoing	2001
	Vietnam SME Enterprise Development Fund	European Commission	Ongoing	2003
Policy Lending Institutions				
Operational Framework	Comprehensive TA for the reform and restructuring of the Development Assistance Fund (DAF)	World Bank / ASEM Trust Fund	Proposed	2003
	Comprehensive TA for the reform and development of the Bank for Social Policies (VBSP)	World Bank / ASEM Trust Fund	Proposed	2003
Microfinance Institutions (MFIs)				
Access to Microfinance	Studies, training and technical assistance to improve low-income household access to formal financial services	CIDA	Completed	Dec. 1997
	Support the establishment of the People's Credit Fund network	CIDA	Completed	1994
	Legal, regulatory and supervisory framework for MFIs	ADB	Ongoing	Aug. 2002
	Loan and technical assistance to support rural enterprise finance through VBARD and People's Credit Funds	ADB	Ongoing	Nov. 2000
	Study On Rural Finance	JBIC	Ongoing / Proposed	Feb. 2003
	Rural Credit and Saving Program (VBARD)	KfW	Ongoing	2002
	Revolving Credit Fund for Poverty Alleviation (VBARD)	KfW	Ongoing	2001
Non-Bank Financial Institutions (NBFIs) (Non-Bank)				
Leasing	Assistance in introduction of operating leases and support for drafting regulation on reposition of leased assets	ADB	Approved	Apr. 2003
	Seminars/courses on financial leasing	JICA	Ongoing	Jan. 2003
Market-Based Financial Intermediation	Second Financial Sector Program Loan to support the development of alternative channels of market-based financial intermediation including insurance sector, leasing sector, money market and capital market, and financial market infrastructure such as secured transactions registration and accounting association	ADB	Ongoing	Jan. 2003
	Technical Assistance for Capacity Building for Nonbank Financial Institutions and the Capital Market	ADB	Ongoing	2003
	Assistance to State Securities Commission in preparation of the Capital Market Roadmap	ADB	Completed	2003
	Capital Market Development	GTZ	Proposed	May. 2004
	TA for the State Securities Commission (SSC) for capacity building, linking the equitization process with market development, and investor education.	World Bank / ASEM Trust Fund	Proposed	2003
	TA for the State Securities Commission (SSC) for the development of the securities market and the medium and long-term capital market	Seco (Swiss Embassy) / Private Sector	Proposed	2004
Secured Transactions	Capacity building for the National Registration Agency of Secured Transactions	ADB	Ongoing	Dec. 2002

(source: VIETNAM PARTNERSHIP FOR DEVELOPMENT An Informal Report for the Consultative Group Meeting for Vietnam Hanoi, December 2-3, 2005)

Appendix 3 Basic items to be checked

Economic Figures

GNI per capita
M2/GDP

Government Ministries in charge (including central bank)

ministries in charge of
- financial systems
- financial policies (in a narrow sense)
- supervision of financial institutions
- foreign exchange policy
- cross-boarder capital flow

relationship between
- governmental ministries & central bank

Currency / Capital Flow

foreign exchange mechanism
- (fixed-rate / floating rate systems, dollar-peg system, etc.)

control over cross-boarder capital flow
ODA fund
inward direct investment
inward portfolio investment

Financial Institutions

Category of Institutions
- (depositary financial institutions)
  - state-owned commercial banks
  - private commercial banks
  - foreign banks
  - credit unions
  - micro-finance institutions
  - other institutions
- (public financial institutions)
  - development finance institutions
  - trade finance institutions
  - SME finance institutions
  - rural finance institutions
  - mortgage finance institutions
  - other institutions
- (other financial institutions)
  - security firms
  - life insurance companies
  - casualty insurance companies
  - leasing companies
  - pension funds
  - venture capital
  - various funds
  - others

Outline of Institutions
- number of institutions, branches & offices
- amount of assets, liabilities & equities,
- amount & outline of client portfolio
- deposit rate & lending rate

Soundness of Institutions
- capital adequacy ratio
  - (equity/asset, equity/risk-weighted asset)
- non performing loan ratio
  - (bad & doubtful debt/asset)
- asset assessment way
- early warning system

Safety Net of Institutions
- deposit insurance system

Financial Markets

Short-term money market
- categories of markets
- participants, sizes, interest rates, trading periods, collateral etc. of

Equity market
- security exchange
- number, name, individual market price, aggregated market price etc. of listed shares,
- listing of foreign companies' shares
- trading volume of shares

Bond market
- type of bonds (treasury bond, corporate bond, etc)
- number, name, issuing volume, interest rate, maturity etc. of bonds
- trading volume of bonds

Foreign exchange market
- market volume
- trading currencies
- brokers

Commodity market
Credit market
Derivative market
- availability of market
- kinds of markets
- market volume
- brokers

Related infrastructure

Legal Systems
- Banking law, Central bank law, Law of public financial institutions, Security exchange law, Commercial code, Company law, Tax law, Bankruptcy-related laws, etc.

Financial Accounting & Auditing Systems
- financial accounting standard, relation between domestic financial accounting standard & IAS (International Accounting Standard), auditing system, auditor system, association of auditors

Financial Sector Information
- financial credit information including credit ratings, financial statistics, information distribution system

Appendix 4 Important issues at the project exploration and formation stages

With regard to the research subjects and methods at the financial sector project exploration and formation stages, the following points will become important

1. Important points and research subjects at the project exploration and formation stages

(1) To grasp priority issues in the financial sector of the beneficiary country

- Before selecting the project's issues, it is important to understand to what degree does Japan place emphasis on the financial sector development assistance under the Japanese assistance policy for the beneficiary country.
- Grasping trends of the financial sector as a whole and priority policy issues of the beneficiary country, through a thorough review of the country's strategy of financial sector development.
- Confirmation of the basic assistance policies of the international aid agencies, especially with WB and IMF for the financial sector projects, and coordination with those agencies. For example, since May 1999, financial system strengthening programs for WB member countries have been conducted as "Financial Sector Assessment Program," in collaboration with IMF. Furthermore, as a recent trend, the banking sector reform is often included as a priority issue in the conditionality laid out for the Poverty Reduction Support Credit (PRSP), which is a fund-assistance policy program in support of a Poverty Reduction Strategy Paper (PRSP).
- Coordination with other donors when needed based on the understanding of trends in other donors' assistance.
- Identifying the areas that are appropriate for JICA assistance, by examining priority assistance areas with reference to the table of "Systematic Approach to Development Projects in Financial Sector" (please refer to the section 3-1 (2) etc., of this report). Examination of implementation concrete potential assistance program.

(2) To select a target financial assistance project

- Grasping priority of the potential project in terms of policy and assistance needs of the beneficiary country.
- Coordination with counterpart agency of the beneficiary country and evaluation of implementation capacity of the counterpart agency.
- Assessment of capacity to implement the potential financial project on the Japanese side, grasping availability of experts and possibility to mobilize necessary experts (JICA, support committee members, academics, consultants). It should be noted that assumption on expert mobilization would be changed significantly, depending on the expertise level of available Japanese experts (as it might be necessary to mobilize foreign experts in the fields where Japanese expertise is not yet matured).

- Selection of assistance scheme (selecting a scheme such as development study, technical cooperation project, dispatch of experts, training program, etc., / or examining the combination of the above schemes).
- Narrowing down issues and preparing specific TOR. Confirming availability of necessary information/data.
- For the financial sector assistance, it is necessary to conduct enough preliminary survey before the inception of the project, because policy needs often vary due to changes in policies of the beneficiary country and international organizations as well as due to changes in domestic and international economic conditions, and also because it requires coordination with many parties.

2. Important points concerning the project implementation structure

(1) Consensus building

Consensus building on implementation of the project with the counterpart agency is important. It is also necessary to confirm agreement by the authority supervising the counterpart agency (ministry in charge of economic planning, Ministry of Finance, etc.) and other supervisory agencies (such as central bank).

(2) Agreement on the project contents

- Agreement with the counterpart agency on the TOR, according to the assistance scheme.
- It is necessary to examine, in advance, measures to have flexibility in making necessary adjustments (changes) in the original TOR during the cooperation period. (It is important, especially in the financial sector, to secure such flexibility, assuming that the need to change the original TOR would arise, depending on the changes in political, economic and industrial situation, restructuring of the counterpart agency within the beneficiary country, etc.)
- It is important to consider, in advance, measures to utilize the project outputs. For example, it is essential to introduce a program that settles the project output in the routine practice (such as trainers' training), aiming at supporting sustainable capacity development of the counterpart agency. Also, it is important to consult with JBIC beforehand on possibility of Japanese assistance through financial support (yen loan etc.), if financial assistance is necessary to realize the project.

(3) Mobilization of experts

- Availability of Japanese experts and organizations in relevant fields is especially important due to limited resources in the financial sector.
- Mobilization of foreign experts needs to be examined, if there is a need to complement

availability of Japanese experts in the fields such as microfinance.

- Estimation of necessary resources by the TOR, activity schedule, etc.
- Examination of the possibility of repeatedly dispatching various short-term experts.

  Since the financial sector development assistance requires the mobilization of experts with high-quality financial expertise from various fields, it is necessary to create a new flexible structure of project implementation, rather than the conventional ways of dispatching a small number of experts on a long-term basis.

(4) Examination of the project implementation structure

- Establishing a structure for the implementing agencies to assume absolute responsibility for the whole project implementation process: Request form from the beneficiary country – S/W (Scope of Work) mission – TOR preparation and appointment of a consultant team – implementation of the study – evaluation – feedback to the beneficiary country.
- A joint research by Japanese experts, consultants and the counterpart from the beneficiary country.
- Clarifying who is responsible for what in the consigned organization, its experience and expertise, capacity to implement the project and sustainability after the project completion
- Establishment of a Project Steering Committee. (Note that financial sector technical assistance, to which Japan has less experience, requires timely transfer of know how and a Project Monitoring Committee is not suitable for providing such timely responses.)

(5) Consideration of attractive business models to promote participation of specialized organizations and experts that have high-level expertise

Since the financial sector assistance is a relatively new area for JICA, the project in this sector would sometimes have an aspect of prior investment and might meet unexpected risks. Therefore, it is important to make such projects worth challenging for a long-term, which will enable a consigned organization to mobilize necessary experts while ensuring a certain level of profitability.

Reference Publications/ Web Sites

1 Reference Publications

List of publications in Japanese

Committee of Technical Assistance for System Improvement for Market Function, Sub-committee of Economic Soft-infrastructure, Japan International Cooperation Agency. 2003. *Direction of technical assistance for system improvement in developing countries: economic soft-infrastructure*.

Institute for International Cooperation, Japan International Cooperation Agency.

2001. *Business strategy research study: Report of basic study of policy support style technical cooperation in the financial sector.*

2001. *Business strategy research study: Report of fact findings.*

2004. *Research of case studies of JICA's technical assistance in the microfinance sector* (written by Hidemi Yoshida/Mariko Okamoto).

Izumida, Yoichi. 2003. *Finance for Rural Development---Experiences of Asia and Economic Development*. University of Tokyo Press.

Japan Bank for International Cooperation. 2005. *Annual Report 2005.*

2005. *Report of ODA Loan activity 2005*

Japan International Cooperation Agency. 2005. *JICA Annual Report 2005*

Ministry of Foreign Affairs. 2005. *White Paper on ODA 200---How Japan responds to Millennium Development Goals.*, National Printing Bureau.

Nakao, Takehiko.2005. *Japanese ODA and international assistance trend---especially from a perspective of international finance.* In .*Finance*. No.470.(2005/1/10) & No. 472 (2005/3/10). Ministry of Finance.

Nogami, Hiroki, and Tatsufumi Yamagata. 1997. *Text Book Developing Economics*. Institute of Developing Economies. Yuhikaku.

Sakai, Yoshikiyo, and Yoshiaki Shikano. 2000. *Financial System, 2nd edition.* ,Yuhikaku.

World Bank. 2005. *World Development Report 2005 - A Better Investment Climate for Everyone.*Springer-Verlag Tokyo.

2005. *World Bank Annual Report 2005---review of the year of 2005.*

List of publications in English

USAID/EGAT. 2003. *Financial Sector Strategy*.

World Bank/IMF. 2005. *Financial Sector Assessment A Handbook*

2 Web sites

JICA: Knowledge site http://gwweb.jica.go.jp/km/km_frame.nsf

ADB http://www.adb.org/

http://www.adb.org/financialSector/ (Financial sector)

http://www.adb.org/financialSector/banking-system.asp (Banking system)

http://www.adb.org/PrivateSector/Finance/fin_sector.asp

(Support for financial sector)

http://www.adb.org/Microfinance/default.asp (Microfinance)

http://www.adb.org/FinancialSector/bondmarket_development.asp

(Asian bond markets)

http://www.adb.org/Documents/CSPs/default.asp

(Country strategy & program)

CGAP http://www.cgap.org/ (Overview of microfinance)

http://www.cgap.org/about/microfinance.html (Microfinance)

GTZ http://www.gtz.de/en/

http://www.gtz.de/en/themen/wirtschaft-beschaeftigung/finanzsysteme/872.htm

(Financial system)

http://www.gtz.de/en/themen/wirtschaft-beschaeftigung/finanzsysteme/6011.htm

(Financial sector approach)

http://www.gtz.de/en/themen/wirtschaft-beschaeftigung/finanzsysteme/6021.htm

(Further related websites)

http://www.gtz.de/en/themen/wirtschaft-beschaeftigung/finanzsysteme/2994.htm

(Microcredit)

http://www.yearofmicrocredit.org/ (International Year of Microcredit 2005)

IFAD http://www.ifad.org/

http://www.ifad.org/operations/policy/cosop.htm

(Countries strategic opportunities paper)

http://www.ifad.org/pub/other/rural_e.pdf (Rural finance for the poor)

IMF http://www.imf.org/

http://www.imf.org/external/np/exr/facts/surv.htm (IMF surveillance)

http://www.imf.org/external/np/exr/facts/prsp.htm

(PRSP: Poverty Reduction Strategy Paper)

http://www.imf.org/external/np/prsp/prsp.asp (PRSP country papers)

http://www.imf.org/external/np/exr/facts/tech.htm (IMF technical assistance)

http://www.imf.org/external/np/fsap/fsap.asp

(FSAP: Financial Sector Assessment Program)

http://www.imf.org/external/pubs/ft/fsa/eng/index.htm

(Financial Sector Assessment Handbook)

http://www.imf.org/external/pubs/cat/scr1_sp.cfm?s_year=2006&e_year=2006&brtype=title (IMF country reports)

http://www.imf.org/external/np/exr/glossary/showTerm.asp#58

(Glossary of financial terms)

UNDP http://www.undp.org/

http://sdnhq.undp.org/gender/programmes/microstart.html

(Microstart program)

USAID http://www.usaid.gov/

http://www.usaid.gov/our_work/economic_growth_and_trade/eg/financial_markets.html

(Financial sector)

http://www.usaid.gov/our_work/economic_growth_and_trade/eg/fin_mkts_reports.htm

(Financial sector report search)

World Bank http://www.worldbank.org/

http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/0,,contentMDK:20120705~menuPK:41386~pagePK:41367~piPK:51533~theSitePK:40941,00.html

(Poverty Reduction Strategy Papers)

http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/0,,pagePK:180619~theSitePK:136917,00.html#v (Activities by country)

http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/0,,contentMDK:20120746~menuPK:51557~pagePK:41367~piPK:51533~theSitePK:40941,00.html

(Country Assistance Strategies)

http://web.worldbank.org/external/projects/main?pagePK=217672&piPK=95916&theSitePK=40941&menuPK=223665&category=majsector&sector=FX

(Financial sector project database)

http://publications.worldbank.org/ecommerce/catalog/category_3932

(Publication by country)

http://publications.worldbank.org/ecommerce/catalog/category_3843

(Publication search in banking, finance and investment)