

# **Investment Strategies & Business Models for Building a Global City - Role of Concessional Finance -**

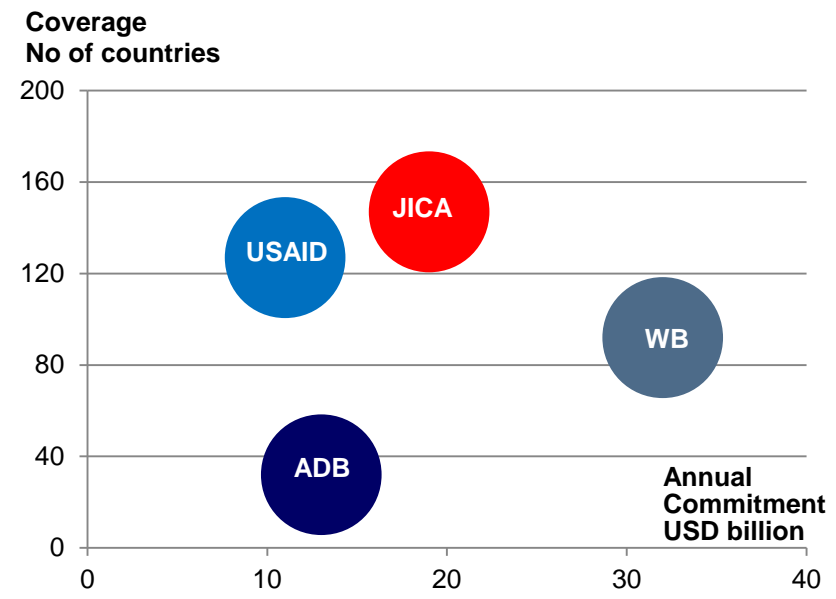
November, 2015

Japan International Cooperation Agency (JICA)



# 1. JICA: Who is it?

- **Japan International Cooperation Agency (JICA)** is the executing agency of Japan's bilateral **Official Development Assistance (ODA)**, and is one of the world's largest aid agency.



- Accumulated assistance to **Sri Lanka** (as at mid 2014):
  - Technical Cooperation: JPY 72 billion
  - **Concessional Loan**: JPY 924 billion
  - Grant assistance: JPY 155 billion
  - Japanese Volunteers: 928 persons
- Impact of funding in **Sri Lanka** (as at mid 2014):
  - Power & Energy: 21% of generation capacity
  - Water Supply: 24% of pipe-borne water
  - Transport: 48% of operational expressways



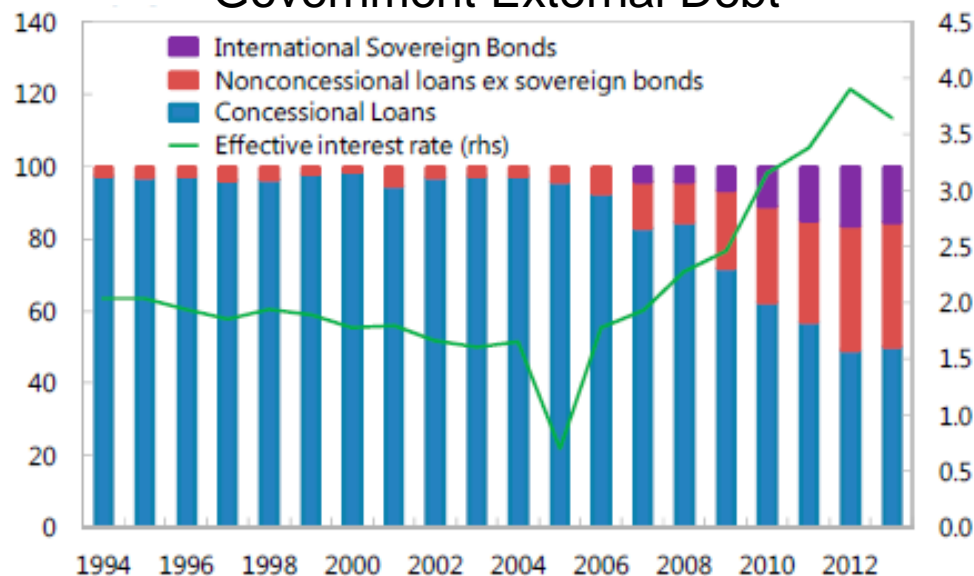
# 2. Concessional Loan: What is it?

- **Low Interest Rate**, and **Long-term Repayment Period**  
<example> JICA's Concessional Loan

Terms	Interest Rate	Repayment Period	Grace Period
General	1.4%	25 years	7 years
Preferential	0.3%	40 years	10 years
STEP	0.1%	40 years	10 years

- Increasing Borrowing Costs  
→ **Maximum Use** of Concessional Loan
- **Losing Access** to Concessional Loan beyond Upper Middle Income Country

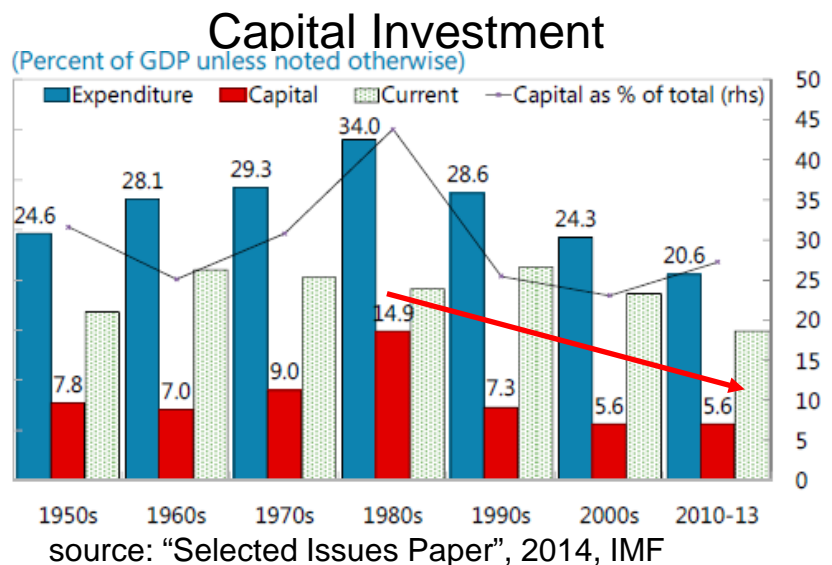
### Government External Debt



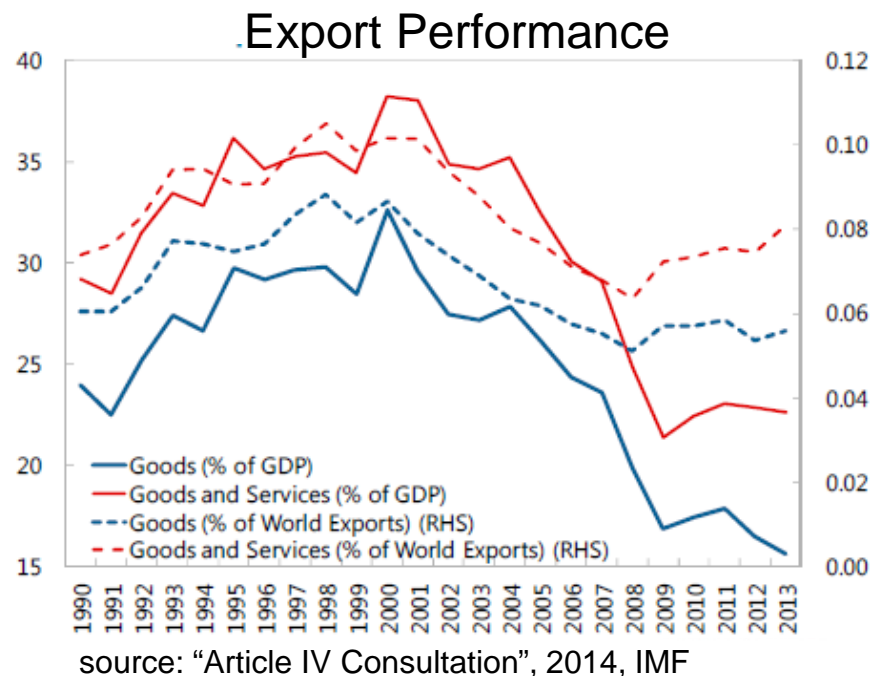
source: "Selected Issues Paper", 2014, IMF

# 3. Challenges: Securing Growth Basis

- Declining Capital Investment  
 → **Reinvigorating Capital Investment** for Infrastructure to Secure Economic Growth Basis



- Deteriorating Export Performance  
 → **Improving Investment Climate** to Promote FDI for Enhancing Export Industries

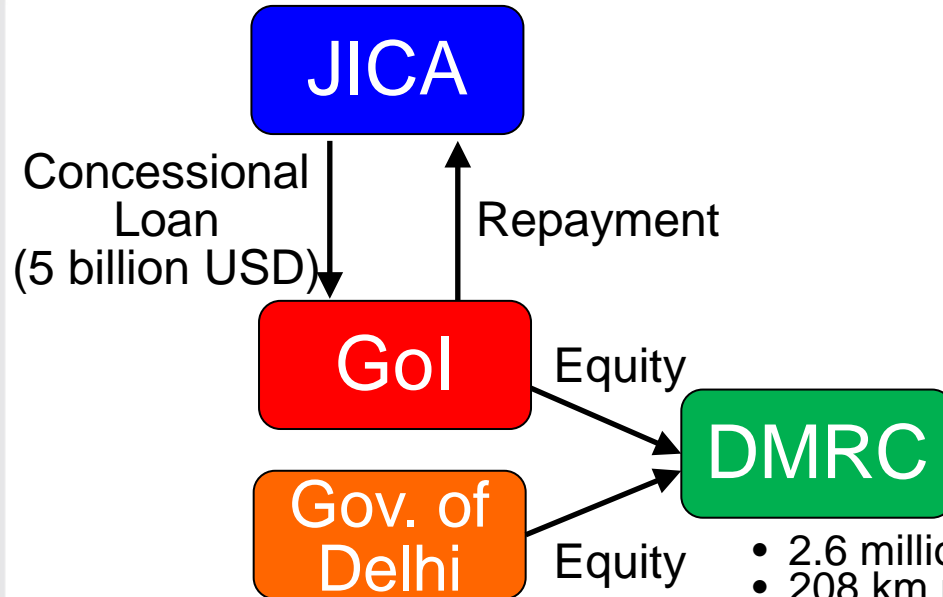


# 4. Role of Concessional Loan

## (1) Large-scale Infrastructure Finance

- High Capital **Cost / Risks**
  - Discouraging Private Investment
  - Supporting **Economically Viable** Public Investment

<example> India: Delhi Metro Rail Project



- 2.6 million daily passengers
- 208 km network (330km by 2016)
- 216 trains
- O&M cost covered through fare, property business, etc.

- PPP: Silver Bullet?
  - Delhi Airport Express Line → Concessionaire Exit from Business
  - Chennai Monorail → No Bid Succeeded after Several Tender Calls

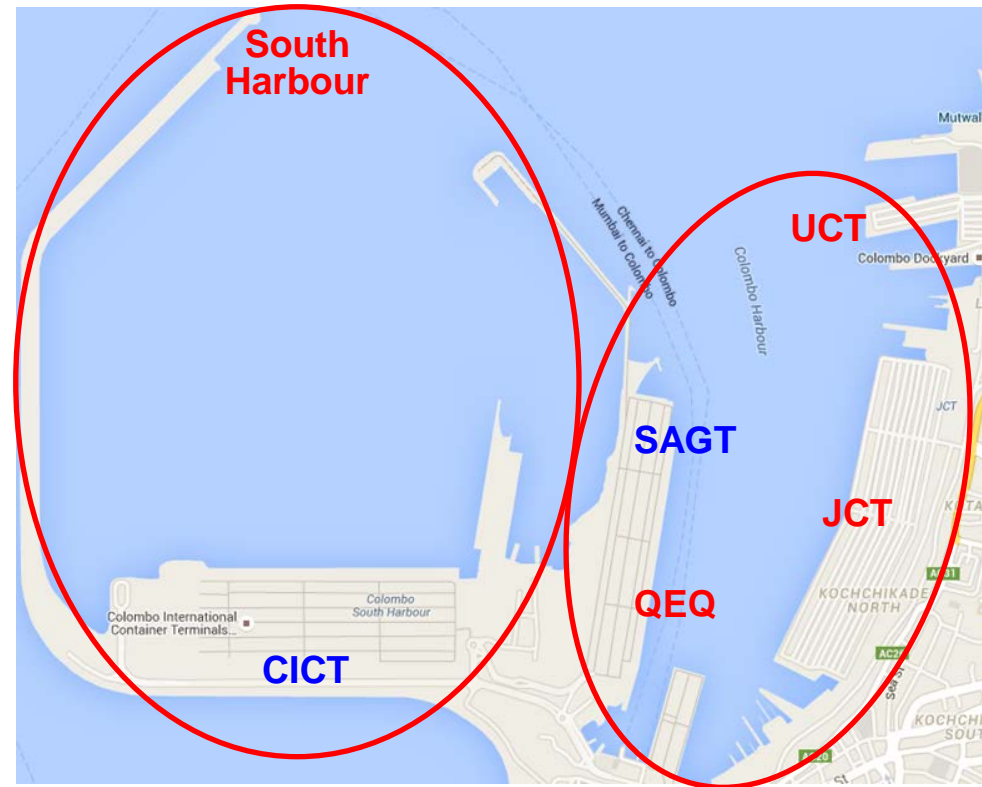
# 4. Role of Concessional Loan

## (2) Catalytic Role

- Bearing Cost & Sharing Risk through Public Investment with Concessional Loan **at Initial Stage**  
 → **Providing Commercially Viable Foundation** for **Subsequent** Private Investment

<example> Colombo Port

- UCT / JCT / QEQ developed by JICA Loans  
 → SAGT
- South Harbour developed by ADB Loans  
 → CICT

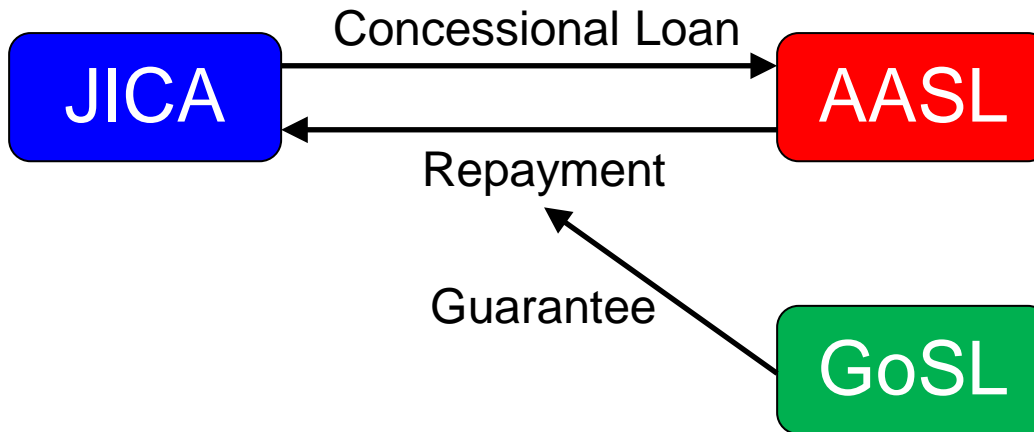


# 4. Role of Concessional Loan

## (3) Sub-Sovereign Finance

- Standard Case: JICA → Government (Borrower)
- Exceptional Case: JICA → **Public Entity** (Borrower) with Sovereign Guarantee

<example> Bandaranaike International Airport Development Project



- Implications for Future Projects
  - Financially Sound Public Entity?
  - Sovereign Guarantee?

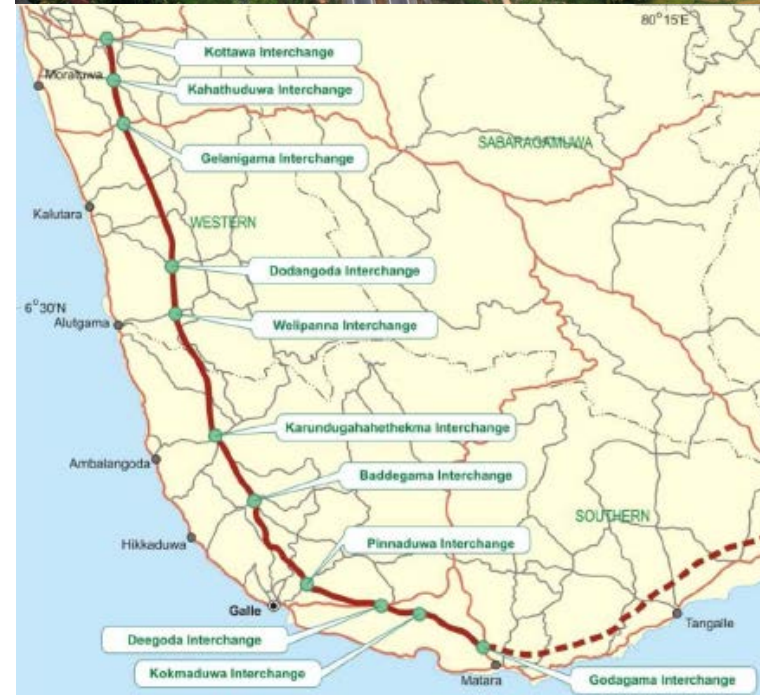
# 4. Role of Concessional Loan

## (4) Leveling Playing Field

- Providing Broad Based Economic Growth and Social Development

<example> Southern Expressway

- Parallel Finance by JICA and ADB
- Common Environmental & Social Safeguard System
- Opened in 2011
- Traffic Volume (average per day) ~8,000 (2011) → ~24,000 (2015)
- GDP Share of Southern Province 8.9% (2004) → 11.0% (2013)
- Poor Household Percentage 11.0% (2006/07) → 6.3% (2012/13)





# 4. Role of Concessional Loan

## (5) Counter Cyclical Role

- **Volatile** Private Financial Flow
  - post-Tsunami in 2004
  - Lehman Shock in 2008
- Concessional Loan → **Stable and Counter Cyclical**

