

Government Lending based on Japanese System and Experiences

by

Japan International Cooperation Agency

Enomoto Hiroshi

22 October 2009

Why government lending?

- Achieving government policy goal (Economic growth, Agricultural policy, Rural development, Poverty reduction, Social Welfare etc.)
- Responding to crisis (Economy, Natural disaster)
- Private bank: quick, but higher interest rate, rather short term, strict conditions, targeting group, bank own goals not coincide with government policy goal
- No private bank for big fund demand
- Equal access to fund for people (especially small companies, poor, women)

Government lending in Japan

- Establishment many governmental corporations and banks according to different purposes in rehabilitation stage after WW 2.
- Government lending worked very well in developing stage 1950's to 1980.
- But role is reducing.
- Many governmental financial corporations were merging, abolished and some were privatized in 2008.

Setting criteria for governmental lending

- Purpose (rural development, poverty reduction etc)
- Definition of target group (farmer, small company, big company poor)
- Who responsible ? (ministries, local governments, governmental bank)
- How much lending (micro credit to million)
- Interest rate, repayment period
- Evaluation of credit (not strict as private bank)
- Procedure (transparency, speed)

Government lending enhancing agricultural sectors

- Agriculture Forestry and Fisheries Finance Corporation: est. 1953, merged into Japan Financial Corporation in Oct, 2009.
- Create strong agriculture, forestry and fisheries sectors. farmers
- Thousand dollars to hundred thousand dollars scale at low interest rate and long-term for
- Definitions farmers for low interest rate is decided by MOA
- Buy land, machine, animal, warehouse, greenhouse, food processing house, forestry, fisheries, running cost, emergency

Fund sources of governmental lending in Japan

Mainly Special fund (fiscal in investment and loan program (FLIP) and market.

For example, JICA fund comes from

- 1 General budget (tax) for mainly grant aid & technical assistance
- 2 Special fund (FLIP), for loan only
- 3 Market (issues bond) for loan only
- 4 Own fund (pay back from borrowers) for loan

Separate account for loan and grant aid & technical assistance in JICA to avoid mixing up