

# Strengthening fiscal and financial foundations, aiming for economic stability and growth

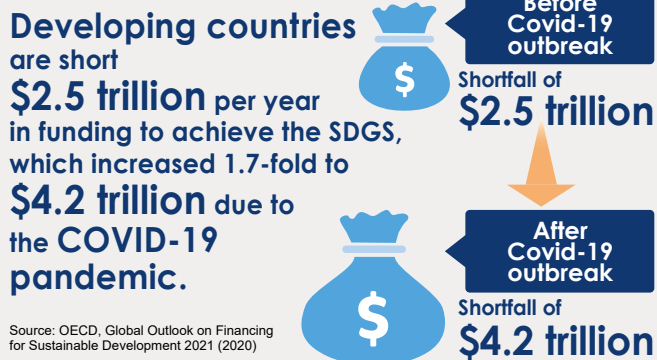
We support the proper  
management of public  
finance, monetary  
and financial sector  
policies, and  
customs  
administrations  
to stabilize  
economies in  
developing countries  
and promote growth.



## Funds developing countries can mobilize are overwhelmingly less than what they demand.

Before the global outbreak of the Coronavirus disease (COVID-19), developing countries faced a financing gap of \$2.5 trillion per year to achieve the SDGs.

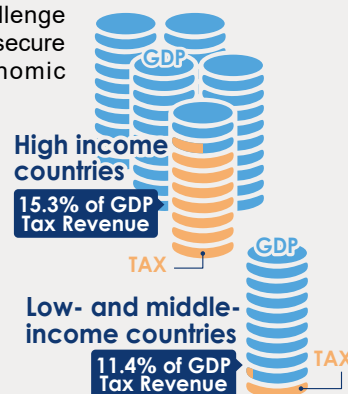
As a result of increased pressure on fiscal spending and reduced funding from other countries due to the COVID-19 pandemic, the demand for funds in developing countries is estimated to have ballooned 1.7 times to \$4.2 trillion.



## Tax revenues are insufficient in developing countries compared to those in high-income countries.

Tax revenue is a significant financial resource for national and local governments to provide necessary public services to their people. According to the World Bank, tax revenues above 15% of GDP are desired for countries to generate sufficient resources for necessary investment. The average tax revenue to GDP ratio is 11.4% for low- and middle-income countries compared to 15.3% for high-income countries, indicating a challenge for developing countries to secure necessary funds for economic growth.

Average ratio of tax revenue to GDP is **15.3%** for high-income countries and **11.4%** for low- and middle-income countries



Source: World Bank Open Data

## A fragile financial system could trigger an economic crisis.

Appropriate monetary policy and financial system stability are essential for macroeconomic stability. However, central banks in developing countries sometimes face challenges regarding monetary policy capacity, central bank autonomy, payment and settlement systems, and financial regulation and supervision. Malfunctioning banking systems and underdeveloped capital markets may impede financial intermediation and access to proper financial services for individuals and firms.

### Typical Risks/Issues

- Rampant inflation, sharp depreciation of currency, and capital flight
- Financial instability due to bank failures and capital market turmoil
- Lack of access to safe and affordable financial services which traps people in poverty

## Modernization of customs administrations is necessary to promote trade facilitation and proper collection of customs duty and tax.

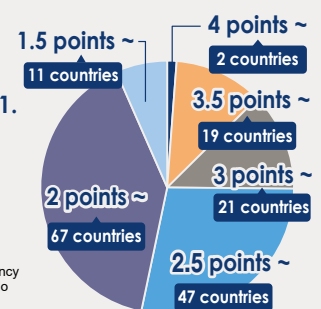
Customs duty is an important source of revenue for developing countries, and expansion of trade through trade facilitation is essential to economic growth. However, long and complicated customs procedures can be a hindrance to further growth. Some common challenges in modernizing customs administrations include expediting procedures by Other Government Agencies (OGA) and the transparent implementation of tariff classification and customs valuation. Improving compliance of traders and strengthening border surveillance and control are also crucial for modernization.

On a scale from 1 to 5, Japan ranks 5th out of 167 countries in its efficiency (\*) of customs procedures with a score of 3.91.

**125** countries score less than 2.5 and have some room to improve.

\*Aggregated LPI score from 2012, '14, '16 and '18. Efficiency is quantified on a scale of 1 (minimum) to 5 (maximum). No country scored less than 1.5.

Source: World Bank, "Logistics Performance Index."



## Strengthening fiscal foundations and fostering financial systems are essential for economic stability and growth.

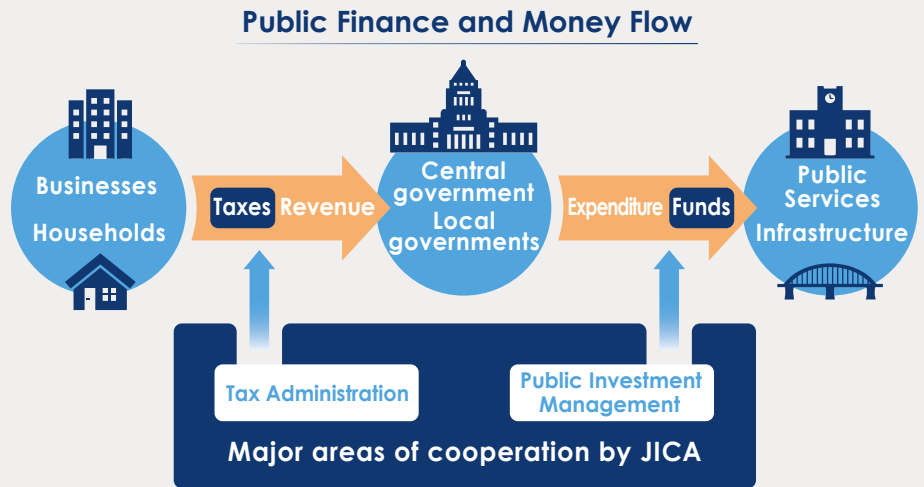
Sound management of public finance and financial systems is the foundation for economic stability and growth, and a prerequisite for developing countries to implement sustainable solutions to address various development challenges. Strengthening public finance, monetary and

financial sector policies, and customs administrations are important to achieve "strengthening economic partnerships and improving business environments," one of the pillars of Japan's "Free and Open Indo-Pacific" foreign policy.

**Approach 1** Strengthening the National Fiscal Foundation

To realize a society in which people can live comfortably, the provision of public facilities and services by national and local governments is essential. National finances are extremely important as the foundation of such a society.

JICA cooperates with tax administrations to develop their organizational and institutional capacity to strengthen revenue bases. We assist in proper debt management as well as support the proper planning and management of public investment, ensuring its sustainability and consistency with national development plans. In doing so, we contribute to the efficient allocation of limited financial resources and maximizing their impact.



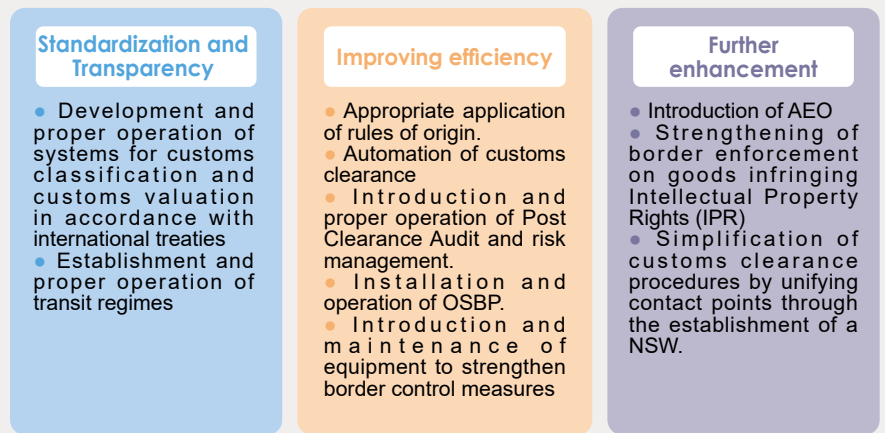
**Approach 2** Strengthening connectivity through support for customs modernization

JICA aims to facilitate trade and the movement of goods and people through the modernization of customs administrations, in order to stabilize and improve people's lives through sustainable economic growth.

First, we support the standardization of customs procedures in line with international standards. Also, we cooperate with customs administrations to improve their efficiency of customs clearance by introducing One-Stop Border Posts (OSBP), which unifies procedures at borders, and introducing automated systems of import/export procedures. For further enhancement, we assist in the introduction of the Authorized Economic Operator (AEO) program and the establishment of the National Single Window (NSW).

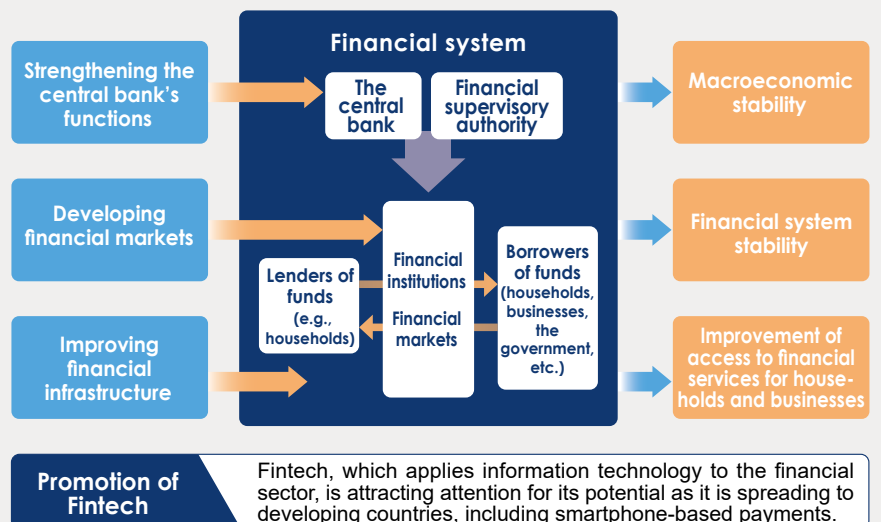
**Key Steps in Supporting Customs Administrations**

We follow three key steps in supporting customs administrations. As a premise, laws, regulations, systems, and procedures in line with international treaties are developed in the partner countries.



**Approach 3** Implementing appropriate monetary policies and developing financial systems

For macroeconomic and financial system stabilities, it is important to strengthen the central bank's capacity to formulate and implement monetary policy, develop financial markets, and improve financial infrastructure such as payment and settlement systems. Those efforts will also contribute the improvement of access to financial services.



Fintech, which applies information technology to the financial sector, is attracting attention for its potential as it is spreading to developing countries, including smartphone-based payments.



1

### Public Investment Management Bangladesh

#### Public Investment Management Enhancement Project



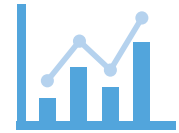
#### Developing capacities for proper management of public investment through coordination with the National Development Plan and reforms in public finance

Bangladesh aims to become an upper-middle income country by 2021 and recognizes the importance of proper public investment to achieve this goal. JICA has developed a public investment management reform tool to help improve the efficiency of the formulation and screening process of public investment projects and strengthen the linkage between development and recurrent budgets. Its operation has contributed to improving the efficiency of public investment projects and budget management as well as the development, implementation, and monitoring of action plans.

2

### Finance Vietnam

#### Capacity building project to improve equity market fairness and transparency



#### Enhancing capacity of supervisory authorities and stock exchange staff

In Vietnam, the joint stock company system was introduced in the late 1980s, and stock exchanges were established in Ho Chi Minh City in 2000 and in Hanoi in 2005 respectively. The stock market has now become a medium-sized market in Asia. As the market continues to expand, the challenge is to ensure its fairness, transparency and efficiency. JICA is working to support State Securities Commission of Vietnam (SSC) and the stock exchanges in strengthening their capacity to monitor transactions, supervise securities companies, and conduct public offering and listing examination.

3

### Customs Administration

#### Support to the Southeast Asia Region Enhancing connectivity through capacity development



To strengthen connectivity and improve the business environment in Southeast Asian countries, JICA dispatches Japanese customs officials to the region to support the customs administrations in each country. In Thailand, JICA has supported the introduction of risk-based customs management methods and in Vietnam, JICA has assisted with the automation of customs clearance procedures and the training of officers to operate the system.



Nongkhai Customs Office, Thailand, "Regional Cooperation Project on Risk Management for Customs in the Mekong Region."

photo: Shinichi Kuno/JICA

#### Support to the African Region Revitalizing logistics through the introduction of OSBPs

In Africa, where there are 16 landlocked countries without coastlines, trucks and freight trains go through a series of procedures of immigration, customs and quarantine every time they cross a border. JICA supports the introduction of OSBPs and the capacity development of its officers to streamline necessary procedures at borders and contribute to the revitalization of logistics in the region.

4

### Tax Administration Mongolia



#### Strengthening tax administration since 1998, resulting in increased revenue

After transitioning to a market economy in 1990, Mongolia introduced a modern tax collection system. While securing high tax revenues, it faced several challenges, such as delinquent corporate income tax, increased taxation cost, and inadequate international taxation systems. JICA has contributed to the proper and fair tax administration of the Mongolian Tax Authority by providing support to improve systems and procedures of tax collection and international taxation, as well as assisting to revise the general tax law.

#### Working with Partners

#### Engaging with experienced institutions and individuals with expertise in public finance and financial systems

We will collaborate with experienced international organizations, central and local governments, private companies, highly specialized researchers, and universities with international student programs.



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Japan International Cooperation Agency (JICA) is an international cooperation organization that is centrally responsible for the implementation of bilateral assistance among Japan's Official Development Assistance. JICA cooperates with about 150 countries and regions around the world.

#### What is JICA Global Agenda

JICA's cooperation strategies for global issues. JICA, with its partners, aims to show global impacts realizing the goals set under JICA Global Agenda. JICA Global Agenda and its goals will be shared among partner countries and various actors, enhancing dialogue and collaboration, therefore, maximizing the development impacts. Through these efforts, JICA will comprehensively contribute to the achievement of the SDGs by 2030 as well as realize Japan's Development Cooperation Charter which focus on "human security," "quality growth," and "addressing global challenges".