III. IDENTIFICATION AND PREPARATION OF PROJECTS

Because of the crucial importance of project identification and preparation in enabling JBIC to conduct appraisal, this chapter describes in more detail their procedures, including the preparation of the request for an ODA loan. Project identification and preparation should be carried out based on the points described below. JBIC conducts appraisal by considering these points.

1. General Sequence

   (1) Project Identification

   Identification, the first stage of the project cycle, is a crucially important process leading to the initial screening of projects.

   Project identification generally consists of the following steps:
   ① Propose measures to solve major problems identified in the development strategy and to meet diverse development needs, while setting clear project objectives and identifying target groups receiving benefits from the project;
   ② Establish the project concept (together with alternative plans) that will effectively serve to achieve the country’s development objectives;
   ③ Assess the priority or urgency of the project in the context of the country’s economic and social development plan and sector investment program;
   ④ Examine consistency with the master plan (M/P) and the regional development plan;
   ⑤ Consider the adequacy of the Executing Agency and the possibility of private-sector participation in the project;
   ⑥ Estimate approximate project cost (together with the cost of alternatives) based on the conceptual design; and
   ⑦ Make preliminary assessment of the feasibility of the project and its impacts on the country, its specific region or sector.

   Projects are usually identified by the following entities:
   ① Government agencies preparing the national, regional or sectoral development plan;
   ② Bilateral or multilateral aid agencies conducting country economic/sector studies or ex-post evaluation of completed projects; and
   ③ Public or private-sector entities in the country or donor countries, municipalities, local residents, non-governmental organizations (NGOs), academics and others conducting a project.

   (2) Project Preparation

   Project preparation brings a project plan to the point amenable to appraisal. In other words, the level of maturity where it is possible to determine whether the project may be effectively implemented (and if so, how it might be implemented), whether the project cost is acceptable when considering its spillover effects on economic and social development, and whether the project is environmentally sound.
2. Feasibility Study

The feasibility study (F/S) analyzes the economic and technical aspects as well as financial viability of the project. The results of the F/S are contained in the feasibility study report, which provides essential basic material for the prospective Executing Agency and other relevant organizations, as they decide whether the project should be implemented. The feasibility study report must be prepared based on a thorough and extensive study carried out to internationally accepted standards.

(1) Information Contained in the Feasibility Study Report

The feasibility study report usually covers the following items, though its focus may differ, depending on the nature of the project. If an ODA loan is to be provided, the report must contain fully and clearly the items JBIC covers in its appraisal. Thus, the feasibility study report for a project seeking Japan’s ODA loan should be prepared with due consideration for the principles underlying JBIC’s project appraisal as stated in Chapter V (see p. 16).

① Background of the project, including recent economic developments in the country and the target sector, information on the project site and surrounding areas, and how the project has been formed, etc.;
② Major policy issues regarding the target sector (including tariffs, subsidies, sector reform, and privatisation) and the government’s response and policies toward that sector;
③ Objectives of the project;
④ Analysis of the necessity of the project, including supply-and-demand analysis and the relative priority of the project in the country’s national/regional economic development or sector development plan;
⑤ Detailed comparison with various potentially viable alternatives;
⑥ Detailed description of the project, including the scope of the project and project site;
⑦ Preliminary engineering design and analysis of technical feasibility by taking into account natural resources, project site conditions, availability of materials and labor, and possible construction methods;
⑧ Estimate of the project cost, including foreign and local currency components and financing plan;
⑨ Implementation schedule;
⑩ Institutional arrangements for project implementation as well as operation and maintenance system;
⑪ Institutional arrangements for implementation regarding the Executing Agency and other relevant organizations, including analysis of their technical and financial capabilities and the need for assistance by consultants;
⑫ Evaluation of the technical soundness, economic and financial viability of the project;
⑬ Evaluation of environmental and social impacts, including the aspect of women in development and gender, and mitigation measures (environmental impacts should be carefully reviewed by EIA);
⑭ Foreseen project risks; and
⑮ Recommendations and required steps for project implementation (e.g. government approval for the project or EIA for the project, land acquisition, planning for resettlement of the project affected people, etc.), if any.

(2) Japan’s Technical Assistance to F/S

The F/S is generally carried out by the Borrowing Country Government or by qualified consultants employed by it, donor country governments or bilateral and multilateral aid agencies. In cases where the Borrowing Country Government finds it difficult to carry
out the F/S, due to technical and/or financial reasons, the Government of Japan may provide the following types of assistance upon request from the Borrowing Country Government:

① Grant-funded technical assistance from the Japan International Cooperation Agency (JICA);
② Grant-funded technical assistance from Japanese semi-governmental organizations having expertise on project formation.

3. Environmental Impact Assessment (EIA)

Environmental Impact Assessment (EIA) is a procedure where a project proponent assesses environmental impacts of the proposed project and considers mitigation measures in the project preparation stage. Although many countries have their own regulations on EIA, EIA generally takes the following steps:

① Screening: Determine whether a full-scale EIA is required, depending on the likely extent of environmental impacts.
② Scoping: Identify types of environmental impacts to be assessed, while taking into account alternatives to be considered. It is desirable to seek opinions from the stakeholders.
③ Detailed Study: Examine the present environmental situation, forecast and evaluate environmental impacts caused by the proposed project. Consider necessary mitigation measures (including alternatives).
④ Documentation: Compile the information obtained into an EIA report.
⑤ Review: Finalize the EIA report after consultations with the stakeholders and review by the environmental authority.
⑥ Monitoring and Management: Conduct environmental monitoring and management based on the appropriate environmental management plan.

Since consultations with the relevant organizations and the stakeholders are held throughout the steps described above and their results may force modifications in the project plan and design, EIA usually takes place in parallel with the planning process of the project.
4. Special Assistance for Project Formation (SAPROF)

(1) Background
Adequate preparation is an essential prerequisite for successful implementation of any development project.

Even where the feasibility study has been completed, JBIC sometimes finds its results not adequate for making a decision on ODA loan financing. The Borrowing Country Government may also have difficulties in completing adequate project preparation because of some constraints and lack of necessary resources.

(2) Objectives of SAPROF
JBIC conducts studies by the Special Assistance for Project Formation (SAPROF), one type of the Special Assistance Facility (SAF), or SPROF studies, to prepare the implementation plan for a project in the Borrowing Country Government. A SAPROF study aims at complementing project formation with support from JBIC. In principle, it is carried out based on the following criteria:

① A request for an ODA loan has already been submitted or such intention has been expressed;
② Although the project is found to be basically feasible, the preparation and analysis based on the feasibility study do not meet JBIC’s project appraisal criteria;
③ The Borrowing Country Government confirms its strong intention to utilize the SAPROF study.

(3) Examples of SAPROF Studies
SAPROF studies may take place in the following cases:
① The F/S for the project needs to be updated;
② Specific parts of the preparation and analysis by the F/S are inadequate, as in the case where institutional setup in the borrowing country has to be adjusted or institutional arrangements of operation and maintenance should be put in place;
③ Analysis of the country’s economic and social development plan is inadequate;
④ The project consists of multiple small-or medium-scale subprojects, and the preparation of the implementation program as package is inadequate; and
⑤ Environmental consideration or analysis of the social aspect is inadequate.

(4) Implementation Procedures
Typically, a SAPROF study is conducted by taking the follow steps:
① The site of the planned project where the SAPROF study will be conducted is determined, usually by JBIC’s fact-finding mission, through appraisal or by the Borrowing Country Government;
② JBIC and the Borrowing Country Government discuss the SAPROF study to be conducted, including its necessary scope;
③ JBIC employs consultants for the SAPROF study (the SAPROF team);
④ The SAPROF team conducts a study in the field and reports its findings to JBIC;
⑤ JBIC informs the Borrowing Country Government on the results of this study (usually in the form of the final SAPROF study report).

The steps from ① through ⑥ usually take a few months to one year.

(5) Others
It should be noted that while conducting the SAPROF study may lead to the completion of preparations for project appraisal, it does not imply a decision or commitment regarding the
provision of an ODA loan.

5. Preparation of Loan Request

The Borrowing Country Government requests the Government of Japan for Japan’s ODA loan through the Japanese Embassy in its country. The most important document which must accompany the request is the feasibility study report, as well as the EIA report in the case of a Category A project under the Environmental Guidelines (see Section 1 (3) of Chapter IV (p. 13) and Section 10 of Chapter V (p. 26)), as they give the Japanese government and JBIC necessary information for project appraisal.

In addition to the feasibility study report, the loan request is normally supported by the implementation program (I/P) for the project, which contains the following information:

1. Priority and necessity of the project;
2. Investment and financing plans consistent with the project cost, including the cost of operation, maintenance and staff training program;
3. Details of the items and components of the project for which Japan’s ODA loan is sought;
4. Clear statement of the intention of the Borrowing Country Government to undertake the project; and
5. Steps and procedures necessary to undertake the project (e.g. government approval for the project or EIA, acceptance by the project affected people).

Most of the items in the I/P also appear in the feasibility study report. However, since a feasibility study is primarily an objective analysis and does not contain the Borrowing Country Government’s intentions as shown in 1 through 5 above, it is recommended that in implementing the project, an I/P be prepared, stating precisely and adequately the government’s intentions.

In cases where the project plan should differ from the feasibility study report, because of supply and demand constraints, budgetary constraints or other reasons, the Borrowing Country Government should normally state in the I/P the modifications made in the project plan.