

Operational Rules of
Special Terms for Economic Partnership (STEP) of Japanese ODA Loans¹

1. Eligible Country

- Countries eligible for Japanese ODA loans and tied aid under the OECD rules².

2. Eligible Project

- (1) Projects eligible for STEP are those listed in the following sectors and fields, and, at the same time, for which Japanese technologies and/or equipment are substantially utilized.

[Sectors and Fields]

- Bridges and tunnels
- Ports
- Airports
- Urban mass transit system
- Oil/gas transmission and storage facilities
- Urban flood control projects
- Communications/broadcasting/public information system
- Power stations/power transmission and distribution lines
- Trunk roads/dams (limited to projects that substantially utilize Japanese anti-earthquake technology, ground treatment technology, and rapid-construction technology)
- Environmental projects (limited to projects that substantially utilize Japanese air-pollution prevention technology, water-pollution prevention technology, waste treatment and recycling technology, and waste heat recycling and utilization technology)
- Medical equipment
- Disaster prevention system/equipment

- (2) Even if a project does not fall into the sectors and fields listed above, application of STEP to the project could be positively considered as long as the project substantially utilizes Japanese technologies and/or equipment.

¹ The descriptions with an underline in this document are in principle applied only to the projects pledged by the Government of Japan on or after April 1st, 2013.

² Under the current terms and conditions of Japanese ODA loans, countries that belong to the income category of “Least-Developed Countries,” and “Upper-Middle Income Countries” are not eligible.

3. Interest Rate and Repayment Period

- Interest rate and repayment period of STEP loans are determined in such a way that satisfies the OECD rules on tied aid.

4. Coverage Ratio

- STEP loans can cover up to 100% of the total project cost.

5. Procurement Conditions

(1) For goods and services

- The prime contractor shall be either of the following³⁴.
 - (a) A Japanese company⁵. Specifically, the company must satisfy all of the following conditions:
 - (i) The company shall be a juridical person incorporated and registered in Japan;
 - (ii) The company shall have its appropriate facilities for producing or providing goods and services in Japan; and
 - (iii) The company actually conducts its business in Japan.
 - (b) A Joint Venture (JV) composed of a Japanese company(ies)⁶ and a company(s) in a recipient country. Specifically, the JV must satisfy all of the following conditions:
 - (i) The lead partner shall be a Japanese company;
 - (ii) The total share of work⁷ of Japanese partners in the JV is more than fifty percent (50%) of the contract amount; and
 - (iii) The partners except Japanese partners shall meet all of the following conditions.
 - The partners shall be juridical persons incorporated and registered in a recipient country or Japan.
 - The partners shall have their appropriate facilities for producing or providing goods and services in a recipient country or Japan.
 - The partners actually conduct their business in a recipient country or

³ Nonetheless, subject to the consent of the Government of Japan, the bilateral tied condition (i.e. not only Japanese companies but also companies in a recipient country are eligible for a prime contractor) may be applied to a certain bidding package(s) once it becomes evident that no Japanese company is expected to bid for such bidding package(s), as a result of (i) the information session for Japanese companies (see 7. below), (ii) prequalification or (iii) bidding.

⁴ The procurement condition for sub-contracts is general untied.

⁵ The same definition will be applied in other items of this document, except the definition of the Japanese company for consulting services stipulated in 5.(2) below.

⁶ "A Japanese company(ies)" stipulated here includes "a consolidated subsidiary of a Japanese company in a foreign country" as defined in (c) below.

⁷ The share of work usually refers to the ratio in the total contract amount stipulated in a JV agreement.

Japan.

(c) A consolidated subsidiary of a Japanese company in a foreign country⁸ (“the company”). Specifically, the company must satisfy all of the following conditions:

- (i) The company shall be a subsidiary company whose financial statements are required to be included in a consolidated financial statement of a Japanese company (as a parent company) by the Financial Instruments and Exchange Act of Japan and related ministerial ordinances⁹;
- (ii) The company shall be incorporated and registered in a country where it is located;
- (iii) The company shall have its appropriate facilities for producing or providing goods and services in a country where it is located; and
- (iv) The company actually conducts its business in a country where it is located.

(2) For consulting services

➤ The prime contractor shall be either of the following.

(a) A Japanese company. Specifically, the company must satisfy all of the following conditions:

- (i) A majority of the subscribed shares of the company shall be held by Japanese nationals;
- (ii) A majority of the full-time directors of the company shall be Japanese nationals; and
- (iii) The company shall be a juridical person incorporated and registered in Japan;

⁸ Qualification of such consolidated subsidiary is strictly examined in exactly the same manner as in the case of a Japanese company in (a) or a JV in (b) above.

⁹ According to the article 8 of the “Ordinance on Terminology, Forms and Preparation Methods of Financial Statements, etc.,” which stipulates the rules regarding how to make a financial statement required by the Financial Instruments and Exchange Act of Japan, in the event that company A has a relationship with company B that meets either of the following, company A is defined as a parent company of company B, while company B is defined as a subsidiary company of company A (please note that the following descriptions are just a summary, not a precise definition).

- A majority of the voting right of company B is held by company A.
- The share of the voting right of company B held by company A is between 40% and 50% (both inclusive), and any of the following is met.
 - (a) A majority of the voting right of company B is held by company A and one or more companies that have close relationship with company A.
 - (b) A majority of the board members of company B is those who used to be employees of company A.
 - (c) There exists a contract(s) that substantially determines company B’s policy on important financial matters etc.
 - (d) A majority of the funding of company B is financed by company A (including guarantees).
 - (e) There exists any other fact by which company A is assumed to dominate decision making in company B.
- A majority of the voting right of company B is held by company A and one or more companies that have close relationship with company A, and either one of (b) to (e) above is met.

(b) A Joint Venture (JV) composed of a Japanese company(ies) and a company(ies) in a recipient country. Specifically, the JV must satisfy all of the following conditions:

- (i) The lead partner shall be a Japanese company;
- (ii) The total share of work¹⁰ of Japanese partners in the JV is more than fifty percent (50%) of the contract amount; and
- (iii) The partners except Japanese partners shall meet all of the following conditions.
 - A majority of the subscribed shares of the partners shall be held by nationals of a recipient country or Japan.
 - A majority of the full-time directors of the partners shall be nationals of a recipient country or Japan.
 - The partners shall be juridical persons incorporated and registered in a recipient country or Japan.

6. Country of origin of goods and services procured under STEP loans

(1) Ratio of the goods and services to be procured from Japan ("the Ratio")

- (a) Not less than thirty percent (30%) of the total price of contract(s) (excluding consulting services) financed by a STEP loan shall be accounted for by either (i) goods from Japan and services provided by a Japanese company(ies), or (ii) goods from Japan only, depending on the nature of the project.
- (b) Either (i) or (ii) above is applied to a project financed by a STEP loan in accordance with the following criteria.
 - (i) Project in which advanced technologies and/or know-how of Japanese companies are identified in services (e.g. construction methods, etc)¹¹.
 - ⇒ Both goods from Japan and services provided by a Japanese company(ies) can be included in the Ratio (i.e. (i) is applied).
 - (ii) Project which consists mainly of the installation of goods or plants and in which Japanese technologies can be identified in such goods or plants¹².
 - ⇒ Only goods from Japan can be included in the Ratio (i.e. (ii) is applied).
- (c) If there are more than one (1) contract for goods and services financed by a STEP loan, the minimum ratio of the goods (and services) to be procured from Japan is determined separately by each contract so as to meet the Ratio stipulated in (a)

¹⁰ See footnote 7.

¹¹ (Example) Tunnels, ports, concrete bridges, trunk roads, dams, sewerage systems, urban underground headrace tunnels, public information systems, hydroelectric power, and geothermal power, etc.

¹² (Example) Communications/broadcasting facilities, wind/solar/thermal power generation, oil/gas transmission and storage facilities, waste treatment sites, waste incineration plants, steel bridges, urban mass transit systems, urban flood control projects, power transmission and distribution line, etc.

above as a project as a whole.

- (d) When a main item(s) that should be included in the Ratio can be specified before the bidding, JICA will make reasonable efforts to ensure that such item(s) is explicitly specified as the goods to be procured from Japan in the bidding document, provided that such action is not against the considerations of economy and non-discrimination among bidders eligible for procurement contracts, etc.

(2) Rules for calculation of the Ratio

(a) Goods

- The price of the goods can be included in the Ratio¹³ when the final assembly (in the case of machinery etc.) or the final refinement/processing (in the case of material etc.) of the goods are carried out either in Japan or by the company that meets either of the following conditions¹⁴.

(i) A manufacturer in a recipient country invested by one or more Japanese companies. Specifically, the manufacturer must satisfy all of the following conditions:

- Not less than ten percent (10%) of the shares of the manufacturer are held by a single Japanese company, and the proportion of the shares held by the Japanese company mentioned above (or the company having the largest share among Japanese companies if more than one (1) Japanese company meet the condition stated above) is the same as or greater than that of the shares held by any company of a third country¹⁵;
- The manufacturer shall be a juridical person incorporated and registered in a recipient country;
- The manufacturer shall have its appropriate facilities for producing or providing goods and services in a recipient country¹⁶; and
- The manufacturer actually conducts its business in a recipient country.

(ii) A manufacturer in a developing country other than a recipient country invested by one or more Japanese companies. Specifically, the manufacturer must satisfy all of the following conditions:

¹³ The cost of the rent or purchase of construction machineries can also be included in the Ratio, as long as they are procured from a Japanese company or a company stipulated in either of (i), (ii) or (iii) below. In addition, in the case of a contract for designing/development and production of an IT system, the costs associated with not only production of hardware but also designing/development and production of software attached to the hardware and setting up of the system can be included in the Ratio, as long as these works are done by a Japanese company or a company stipulated in either of (i), (ii) or (iii) below.

¹⁴ "The final assembly" and "the final refinement/processing" refer to a process of the production that generates a certain added value.

¹⁵ In the calculation of the shares held by a Japanese company(ies), the shares held by a consolidated subsidiary of a Japanese company in a foreign country (as defined in 5.(1)(c) above) can also be counted as the shares held by a Japanese company.

¹⁶ It includes a case where such facilities for producing or providing goods and services are leased from other company, instead of being owned by the manufacturer as its own assets.

- Not less than one-third (1/3) of the shares of the manufacturer are held by a single Japanese company, and the proportion of the shares held by the Japanese company mentioned above (or the company having the largest share among Japanese companies if more than one Japanese company meet the condition stated above) is the same as or greater than that of the shares held by any company of a third country¹⁷;
 - The manufacturer shall be a juridical person incorporated and registered in a country or area on DAC List of ODA Recipients effective at the time of conclusion of the loan agreement for the STEP loan;
 - The manufacturer shall have its appropriate facilities for producing or providing goods and services in the country where it is located¹⁸; and
 - The manufacturer actually conducts its business in a country where it is located.
- (iii) A consolidated manufacturing subsidiary of a Japanese company in a developed company ("the manufacturer"). Specifically, the manufacturer must satisfy all of the following conditions:
- The manufacturer shall be a subsidiary company whose financial statements are required to be included in a consolidated financial statement of a Japanese company (as a parent company) by the Financial Instruments and Exchange Act of Japan and related ministerial ordinances;
 - The manufacturer shall be incorporated and registered in a country other than that on DAC List of ODA Recipients effective at the time of conclusion of the loan agreement for the STEP loan;
 - The manufacturer shall have its appropriate facilities for producing or providing goods and services in a country where it is located¹⁹; and
 - The company actually conducts its business in a country where it is located.

(b) Services

- Among the services provided by a Japanese company(ies) and a consolidated subsidiary(ies) of a Japanese company in a foreign country²⁰, the following costs can be included in the Ratio:
 - (i) Direct costs (travel expenses for engineers, design expenses, outsourcing expenses [but only when a Japanese company receive orders];
 - (ii) Indirect costs (site office overhead [salaries, travel expenses, transportation

¹⁷ See footnote 15.

¹⁸ See footnote 16.

¹⁹ See footnote 16.

²⁰ As defined in 5.(1)(c).

expenses for engineers, insurance and guarantee expenses payable to Japanese companies, etc.], direct supporting costs [freight expenses, preparation expenses, project safety expenses, technical administration expenses, etc.]; and

(iii) General administrative expenses²¹.

7. Others (consultation with Japanese companies in the process of project formulation)

- JICA will conduct consultation with Japanese companies for a candidate project to be financed by a STEP loan, with a view to promoting more appropriate formulation and prompt implementation of the project as well as to promoting more active participation of Japanese companies, if JICA conducts preparatory survey(s) for the project. Such consultation shall be conducted in two stages as specified below.
 - (1) Prior to the commencement of a preparatory survey.
 - ⇒JICA will hear, through documents, the opinions from Japanese companies about the scope of the survey, and reflect them in the scope when appropriate.
 - (2) During the implementation of a preparatory survey.
 - ⇒JICA will organize an information session for Japanese companies (currently organized just before the appraisal), in which the opinions from the Japanese companies are heard with regard to the scope of the detailed design, construction method to be applied, type of contracts to be adopted, construction plan, bid packages (including a bid package(s) for which the bilateral tied condition is propose to be applied), etc. JICA will take such opinions into consideration in the subsequent phases of the project formulation and implementation.
- For a candidate project for which JICA does not conduct a preparatory survey, the consultation process mentioned above will not be applied. In such a case, the information session will be held just before the appraisal as has been the case.

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²¹ The rate is determined based on the rate that is applied to the general administrative expenses of a contract whose construction cost exceeds JPY 3 billion in accordance with the relevant guidelines issued by Ministry of Land, Infrastructure and Transport of Japan. (Although the rate was 7.41% as of February 2017, please use the latest rate.)