



Bosphorus Bridge No. 2 (Turkey)

Implementation System: Cooperation Modality

ODA Loan

Loans for Development under Moderate Terms Encourage Ownership by Developing Countries

In many developing countries, economic and social infrastructure encompassing electricity, gas, transportation and communications services is under-developed. In recent years, in addition to a growing population that lives in poverty in certain regions, such global problems as HIV/AIDS and other communicable diseases, air and water pollution, climate change as well as conflicts and terrorism have emerged. To address these issues, the international community set out the Millennium Development Goals (MDGs) as common goals, while individual countries have launched a range of measures.

ODA Loan supports developing countries by providing low-interest, long-term and concessional funds to finance development efforts.

Characteristics of ODA Loan

—Supporting Developing Country Ownership—

Ownership is crucial for economic growth and poverty reduction in developing countries. ODA Loan, which requires repayment, promotes efficient use of the borrowed funds and appropriate supervision of the projects they finance, thereby underpinning developing countries' ownership in the development process. In addition, as ODA Loan is financial assistance with repayment obligation, it places a relatively small fiscal burden on the Japanese government

and represents a sustainable instrument for official development assistance.

Targeted Areas

International organizations and developed nations are making a variety of efforts to achieve the MDGs. The ODA Charter adopted by the Cabinet in August 2003, moreover, assigned priority on poverty reduction and peacebuilding, in line with the MDGs. Following the ODA Charter, ODA Loan is being actively used to provide support in the areas contributing to poverty reduction, peacebuilding and addressing global issues.

Flow for Implementation of ODA Loan

—Project Cycle—

ODA Loan follows six steps. As lessons learned from ex-post evaluations implemented at the final stage will be fed back into preparations for new projects, this flow of steps is called the Project Cycle.

Targeted Regions

Although ODA Loan is primarily offered to countries in the Asian region given their strong geographical, historical and economic links to Japan, there are also strong needs in countries other regions. JICA has supported a total of 103 wide-ranging countries and regions with ODA Loan.

Contents and Types of ODA Loan

1. Project-Type Loans

1) Project Loans

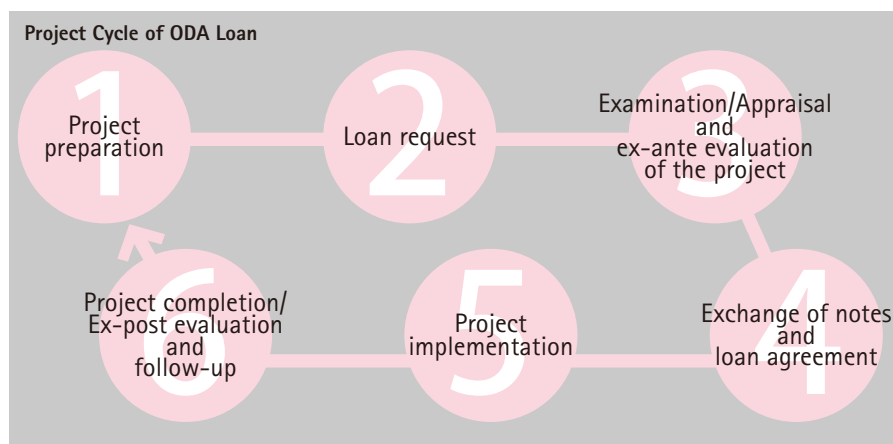
Project Loans, which are predominant among ODA Loan, finance projects such as roads, power plants, irrigation, water supply and sewerage facilities. The loans are used for the procurement of facilities, equipment and services, or for conducting civil and other related works.

2) Engineering Service (E/S) Loans

This type of loan is for engineering services, which are necessary at the survey and planning stages of projects. The services include reviews of feasibility studies, surveys on detailed data on project sites, detailed designs and the preparation of bidding documents. Completion of feasibility studies or their equivalent are prerequisite for this type of loan.

3) Financial Intermediary Loans (Two-Step Loans)

Financial intermediary loans are implemented through the financial institutions of the recipient country based on the policy-oriented financial system of that country. These loans provide funds necessary for the implementation of designated policies, such as the promotion of small and medium-scale enterprises in manufacturing, agriculture and other specified industries and the construction of facilities to improve the living standards of the poor. These loans are known as "two-step loans" because there are two or more steps before the end-beneficiaries receive the funds. Under this type of loan, funds can be provided to a large number of end-beneficiaries in the private sector. Since these loans are implemented through local financial institutions, they also serve to strengthen the operational capabilities of these institutions and to develop the financial sector of recipient countries.



4) Sector Loans

This type of loan is for materials and equipment, services, and consulting required for the implementation of development plans in a specific sector consisting of multiple sub-projects; and also seeks to improve policies and systems in the sector.

2. Non-Project Loans

1) Development Policy Support Loans

This type of loan assists recipient countries seeking to improve policies and implement general system reforms. Unlike conventional structural adjustment loans, these loans support implementation of national strategies or of poverty reduction strategies over longer time

spans. Loan agreements are signed and funds are provided based on confirmation that reform items have been achieved by the country's government. The most common type is one in which proceeds are incorporated into the target country budget (called a "backward looking" type loan). When achievement is confirmed, consultation proceeds with future reform items, in support of reforms based on a long-term framework. Many of these types of loans take the form of co-financing with the World Bank and other multilateral development banks (MDBs).

2) Commodity Loans

This type of loan aims to support both the balance of payments and economic stability of recipient countries. These loans are often used to import commodities such as industrial machinery and raw materials, fertilizer and pesticide, agricultural and other kinds of machinery, which are agreed upon beforehand between the Japanese and recipient governments.

3) Sector Program Loans

This type of loan is a Commodity Loan used to support development policies in prioritized sectors of developing countries. Local currency (counterpart) funds are utilized for public investments for sector-specific development.

Example

Indonesia Development Policy Loans (V)

Cooperation with Multilateral Development Banks for Active Support of Indonesian Economic and Policy Reforms

In Indonesia, where people living on US\$2 or less per day account for 50% of the population, and where new entrants to the labor market increase

by two million every year, economic growth is essential for the creation of new employment. Since 2004, Japan has joined with the World Bank and the Asian Development Bank (ADB) to provide Indonesia with four development policy loans, in support of sustainable policy reforms by that country's government. In March 2009, JICA signed a loan agreement for Development Policy Loans (V).

As part of efforts to improve the investment environment, this program seeks to simplify the

short-term working visa acquisition process, to prevent at the border infringement of intellectual property rights, and to foster investment-related laws and tax law regulations. Based on evaluations of the Indonesian government's policy reform efforts after implementation of earlier development policy loans, the program is expected to further contribute to 1) improvement of Indonesia's investment environment, 2) reform of financial management and reduction of corruption, and 3) poverty reduction.

Example

Kenya Mombasa Port Development Project

Port Project Supports East Africa's International Trade Competitiveness

The port of Mombasa, the largest in East Africa, is Kenya's only international trade port and serves as an export-import center not just for Kenya but also for such inland nations as Uganda, Burundi and Rwanda, which rely on its port functions for their own trade. In response to the year-by-year

rise in Mombasa's cargo handling volume, JICA signed a loan agreement for the Mombasa Port Development Project in November 2007. This agreement provides support for the construction of a new container terminal and for the installation of cranes and other equipment for loading and unloading containers on ships and handling them inside the container terminal. This project seeks to promote smooth cargo distribution for Kenya and the entire East Africa region and is expected to contribute to revitalization of the regional economy.

In addition, HIV/AIDS infection rates in Mombasa exceed the average for Kenya as a whole and there is a need to prevent the spread of HIV/AIDS infection due to an influx of laborers working on construction projects. With this project, through close cooperation with local NGOs, it is intended to hold seminars targeting construction project employees, office workers in project implementation agencies, and local residents as well as to strengthen the capabilities of the medical departments in project implementation agencies.