ODA Loan

Low-Interest, Long-Term Loans for Supporting Ownership by Developing Countries

For Sustainable Development of Developing Countries

In many developing countries, economic and social infrastructure encompassing electricity, gas, transportation and communications services is underdeveloped. Furthermore, in recent years, global issues such as HIV/AIDS and other communicable diseases, air and water pollution, climate change, conflicts and terrorism, and financial crises have emerged in addition to the problems of poverty. To address these issues, the international community set the Millennium Development Goals (MDGs) as common goals, while individual countries have formulated a host of measures.

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

Support that Emphasizes Ownership by the Developing Country

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

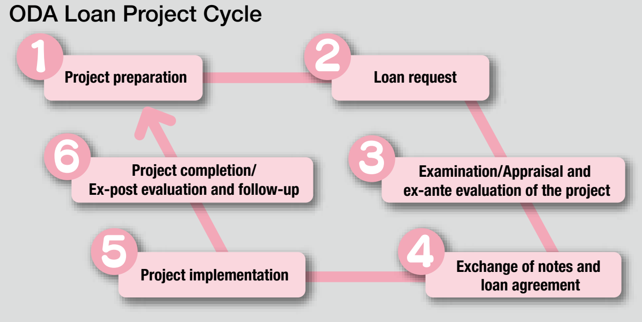
Toward the Common Goals of the International Community

The international community is making a variety of efforts to achieve the MDGs for 2015. Moreover, the ODA Charter adopted by the Cabinet in August 2003 placed priority on poverty reduction and peacebuilding in line with the MDGs. Following the adoption of the ODA Charter, ODA Loans are being actively used to provide support in areas contributing to poverty reduction, peacebuilding and addressing the global agenda (such as responding climate change).

Flow of ODA Loan — Project Cycle —

An ODA Loan follows six steps and 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.

ODA Loan Project Cycle



Targeted Regions Consist of 103 Countries, Mainly in Asia, as Well as African Countries

ODA Loans are primarily offered to countries in the Asian region given these nations' deep geographical, historical and economic relationships with Japan. However, there are also strong needs in countries and other regions, and JICA has supported a total of 103 countries and regions with ODA Loans. Of particular note, in consideration of the Japanese government's international commitments, in recent years JICA has been supporting projects in Africa that include wide-area infrastructure projects such as for the establishment of a road network linking several countries as well as agricultural and rural development.

Types of ODA Loans

1. Project-Type Loans

1) Project Loans

Project loans, which account for the largest portion of ODA Loans, 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

Engineering Service (E/S) loans are for engineering services which are necessary at the survey and planning stages of projects. These services include reviews of feasibility studies, surveys on detailed data on project sites, detailed designs and the preparation of bidding documents. In the same manner as Project Loans, completion of feasibility studies or their equivalent and confirmation of the project's overall necessity and relevance 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 the partner 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 (TSL)" because under the process, funds pass through two or more financial institutions 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, strengthening of the operational capabilities of these institutions and the development of the financial sector of recipient countries are also expected as the result of these loans.

4) Sector Loans
Sector loans are for materials and equipment, services and consulting required for the implementation of development plans in a specific sector consisting of multiple sub-projects. This type of loan also leads to improved policies and systems in the sector.

2. Non-Project Loans
1) Program Loans
Program loans assist recipient countries seeking to improve policies and implement general system reforms. Compared with former 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 partner country's government. In recent years, the most common type of these loans is one in which proceeds are incorporated into the target partner country budget (called a "backward-looking" type loan). In confirming achievement, consultation proceeds with future reform items in support of reforms based on a long-term framework. There are many instances in which these types of loans take the form of co-financing with the World Bank and other multilateral development banks (MDBs).

2) Commodity Loans
In order to stabilize their economy, commodity loans provide settlement funds for urgent and essential imports of materials to developing countries that are experiencing a worsening foreign currency situation and facing economic difficulties. 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 simultaneously to support development policies in prioritized sectors of developing countries. Local currency (counterpart) funds received by the government as payment for foreign currency sold to importers are utilized for public investments for sector-specific development.

Case Study

Contributing to the Promotion of Environment-Friendly and Stable Supplies of Electric Power

Kenya: Olkaria I Units 4 and 5 Geothermal Power Project

In Kenya, the construction of new electric power stations is a pressing issue for responding to growing demand for electric power accompanied by the country's economic growth. Also, because Kenya depends on hydropower for over 70% of its electric power, it is imperative that the country also develop stable electric power sources that are resilient to weather conditions. In response, a ¥29.52 billion ODA Loan was provided to Kenya to undertake a project for expanding the Olkaria I Geothermal Power Station by installing power units 4 and 5, with a combined capacity of 140MW, in the Olkaria geothermal power region in Rift Valley Province, around 75km northwest of the capital of Nairobi. Because geothermal power is an environment-friendly generation method that emits almost no CO_2, this has become the first project supported by a Climate Change Japanese ODA Loan in Sub-Saharan Africa. Co-financing is also expected from the World Bank, European Investment Bank and KfW Bankengruppe (the German development bank).

Sub-Saharan African countries, including Kenya, are suffering from the serious impact of climate change in the form of frequent droughts, floods and the advance of desertification. In response, the Kenyan government formulated the National Climate Change Response Strategy in 2010. The promotion of geothermal power, which is estimated to have a potential of 7,000MW in Eastern Africa, is a central policy of the strategy. At the Fourth Tokyo International Conference on African Development (TICAD IV), the Japanese government announced its policy for "promotion of the use of clean energy and improvement of energy access." This project in Kenya will be implemented in conformance with this policy.


Existing Olkaria II Geothermal Power Station in operation