

ODA Loan and Private Sector Investment Finance

Providing Development Funds with Concessional Terms to Support Ownership by Developing Regions

For Sustainable Development of Developing Regions

In many developing countries and regions, 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.

Loan assistance provides relatively large amounts of development funds under concessional terms to developing countries and regions to support their efforts for growth and development.

ODA Loan

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.

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.

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.

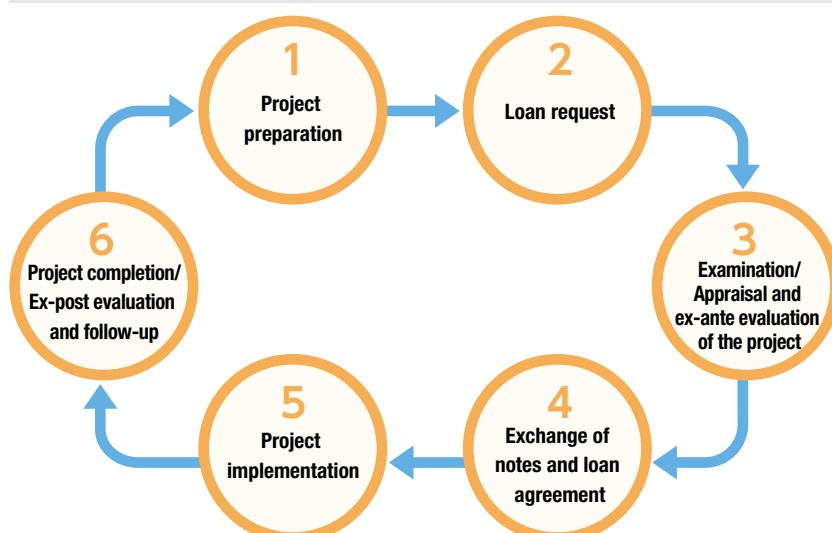
2) Engineering Service (E/S) Loans

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.

ODA Loan Project Cycle



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 support the implementation of national strategies and poverty reduction strategies of developing countries that are seeking to improve policies and implement general system reforms. In recent years, the most common type of these loans is one in which proceeds are incorporated into the target partner country budget. 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.

Private Sector Investment Finance

On January 25, 2011, the Cabinet gave its approval to "Realizing the New Growth Strategy 2011," a policy under which it was decided that JICA would resume private sector investment finance scheme.

Given this decision, JICA, taking a pilot approach* to provide investment through private sector investment finance to projects that have high aid effectiveness, in accordance with the development and other policies of developing countries.

*Implementing specific pilot projects in order to; 1) Verify and improve the new operation system; and to 2) Finalize rules concerning project selection.

Case Study

Egypt Greater Cairo Metro Line No. 4 Phase 1 Project

Easing Congestion by Using Japan's Subway Technologies

The Greater Cairo Region is Egypt's political and economic center with a population of about 17 million, which is approximately one-fourth of the country's population. However, road maintenance and improvements have not kept pace with the rapid growth of the region's population and economy. The result is chronic traffic congestion in Cairo. JICA is using the first ODA Loan to Egypt since the country's revolution to utilize Japan's subway technologies for the construction of the Greater Cairo Metro Line No. 4.

The Greater Cairo Metro Line No. 4 Phase 1 Project entails the construction of a subway line of about 17km with 16 stations. The line will run between central Cairo and the southwestern part of the Cairo metropolitan area, which is near the pyramids. Following the revolution in Egypt, JICA's activities have been centered on three areas: assistance for fair political processes and government activities, assistance for job creation and fostering of industries, and assistance for human resources development. The first project in Egypt since the revolution funded by an ODA Loan, this new metro line will contribute to sustained economic growth and job creation by improving transportation in the Cairo area.

In response to a request by the Government of Egypt, this project uses Special Terms for

Economic Partnership (STEP) to enable the utilization of Japan's subway technologies. Egyptian government officials as well have high expectations for the use of STEP in order to benefit from the experience of Japanese companies and build relationships with these firms. The ODA Loan will be used to fund civil engineering construction, the construction of stations and subway car storage and maintenance facilities, the purchase of subway cars and electrical, mechanical, signal, communications and other equipment, and consulting services. The detailed design of the new line is to be prepared with technical cooperation from JICA.

The new line is scheduled to begin



Mrs. Sadako Ogata, then-President of JICA and H.E. Dr. Galal Moustafa Mohamed Said, Minister of Transport shake hands, after signing a loan agreement

operations in 2020 and carry 1.35 million passengers every day. By 2050, the number of passengers per day is expected to increase to about 2.5 million. Furthermore, by linking central Cairo with an area near the pyramids in only 30 minutes, the new line is attracting much attention as a means of transportation that will be used by large numbers of foreign tourists.