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

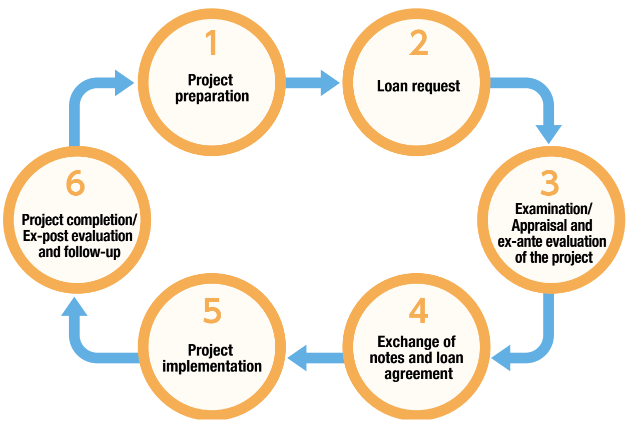
Support that Emphasizes Ownership by the Developing Country

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.

ODA Loan 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 prerequisites 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 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

Support for Development Projects by the Private Sector in Developing Countries

In recent years, the importance of the private sector in economic and social development in developing countries has been steadily increasing, as international organizations, European and US donors greatly boost their support for the private sector. Private Sector Investment Finance aims to stimulate economic activity and improve the living standards of people in developing countries through equity investments and loans for projects undertaken in developing countries by the private sector.

Realizing the New Growth Strategy 2011 (January, 2011) declared that Private Sector Investment Finance was resumed on a limited scale by April 2012 under the Pilot Approach, and then, after reviewing organizational structure of implementation and process in the pilot approach in August 2012, Private Sector Investment Finance was fully resumed in October 2012 by establishing the rules for selecting projects to be financed.

Scope of Support

With Private Sector Investment Finance being targeted to projects with high levels of development effectiveness, the targets are the projects in developing countries in the following three categories: (1) Infrastructure and Growth Acceleration; (2) MDGs and Poverty Reduction; and (3) Climate Change.

Organizational Structure of Risk Assessment and Control

Private Sector Investment Finance has been resumed with an appropriate organizational structure for risk assessment and control. In addition to mutual checks and controls between the departments concerned, JICA conducts portfolio management for the whole of Private Sector Investment Finance through an independent account*, and is reinforcing its capacity for project implementation, risk assessment and management.

*In the Private Sector Investment Finance independent account, loans totaled ¥140 billion, investment securities were ¥46 million and affiliate companies stock was ¥76.4 billion as of March 31, 2013. Ordinary revenues were ¥33.6 billion (dividends on investments of ¥27.5 billion and gains on sales of securities of ¥6.2 billion) and net income was ¥33.0 billion in the year ended March 31, 2013. The independent account received assets of the Private Sector Investment Finance operations on October 1, 2008, which is when JICA was established under its current structure. Ordinary revenues consist of dividends on investments, interest on loans and other revenues from Private Sector Investment Finance. Ordinary expenses consist of losses on sales of securities, impairment losses of securities, interest on borrowings, provisions for the allowance for possible loan losses, attorney expenses and other items involving Private Sector Investment Finance. Revenues and expenses that are not directly related to Private Sector Investment Finance (depreciation expenses, real estate expenses, personnel expenses, etc.) are not included in the independent account revenues and expenses.

Case Study **Expanding the Possibilities for ODA Loans**

The Introduction of ODA Loans with Currency Conversion Option and Stand-by Emergency Credit for Urgent Recovery

JICA introduced ODA Loans with currency conversion option in January, 2013 for projects with repayment periods of less than 20 years. This option allows the borrower to convert the currency for the payment of principal and interest from Japanese Yen into US Dollars. For borrowers who manage their external debt mainly in US Dollars, this option allows them not only to fix their debt amount in US Dollars but also to mitigate the Japanese Yen/US Dollar foreign exchange rate risk. Furthermore, this option can increase business opportunities for companies planning to expand their overseas exposure by attracting borrowers whose revenue streams are denominated in US Dollars.

Moreover, Stand-by Emergency Credit for Urgent Recovery (SECURE) has been provided. In developing countries in which the occurrence of natural disasters can be anticipated, SECURE provides smooth financing for rehabilitation immediately after the occurrence of disasters, based on the prior agreement with JICA with regard to the usage and amount of funds. So far, JICA has provided emergency support in the immediate aftermath of natural disasters and has undertaken measures to arrange infrastructure support during reconstruction phases, but the provision of SECURE makes it possible to respond quickly to demand for funds linking emergency support and recovery seamlessly. Through the coordination between Technical Cooperation and Loan Assistance utilizing the experience of natural disaster prevention in Japan, SECURE contributes to enhancing the disaster response capabilities of borrower countries further.