ODA Loan and Private-Sector Investment Finance

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

In many developing countries and regions, economic and social infrastructure encompassing electricity, gas, transportation, water supply and sewerage systems, 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 Aid 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

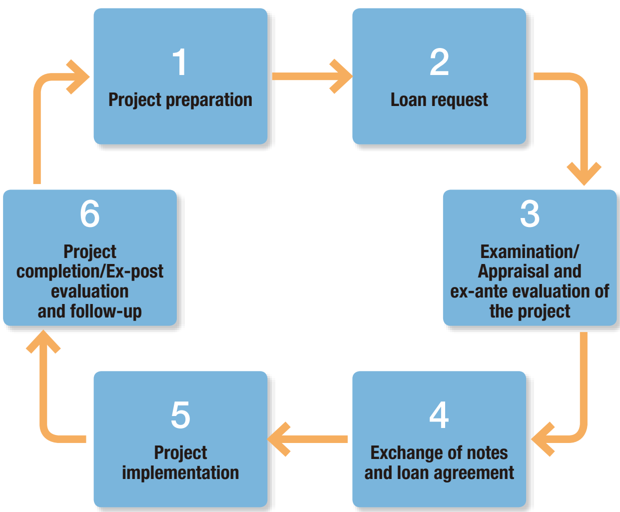
Support and Emphasize Ownership by the Developing Country

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 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 an 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 and/or for conducting civil and other related works.

2) Engineering Service (E/S) Loans

Engineering Service (E/S) loans are for engineering services necessary in the course of 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 people with low income. 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's 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 the economies of developing countries, commodity loans provide settlement funds for urgent and essential import of materials to the 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 and agricultural and other kinds of machinery, the specifics of which are agreed on 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 investment 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 as well as European and U.S. 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. Private-Sector Investment Finance was fully resumed in 2012 after completion of a pilot phase that started in 2011.

Scope of Support

Private-Sector Investment Finance is for such projects with high levels of development effectiveness in developing countries as fall within 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 among the departments concerned, JICA conducts portfolio management for the whole of Private-Sector Investment Finance through an independent account[1] and is reinforcing its capacity for project implementation, risk assessment and management.

Utilization of ODA Loan for PPP Infrastructure Projects

In developing countries, the high demand for infrastructure development, coupled with the pressures on national budgets, is making governments move towards encouraging the private sector to invest in infrastructure projects.

Many companies, not only in Japan but in other countries, have been increasingly interested in PPP infrastructure projects, while several issues still remain, such as the burden of an enormous amount of initial investment, proper risk allocation between the government and the public sector, and securing profitability. Addressing these challenges, the importance of public assistance by developing-country governments for PPP infrastructure project shall not be overlooked.

In this context, JICA introduced the new schemes to utilize ODA Loan to support public expenditures and assurances borne by developing-country governments. These efforts are expected to mitigate the burden on public budgets in recipient countries and further facilitate PPP infrastructure projects.

VGF: Viability Gap Funding

To meet the funding gap of economically essential infrastructure projects, proceeds of the ODA Loan will be used as a subsidy (Viability Gap Fund (VGF)) contribution by developing countries to PPP infrastructure projects.

EBF: Equity Back Finance

Proceeds of the ODA Loan will be used as an equity contribution by the developing countries to PPP infrastructure projects.

Contingent Credit Enhancement Facility for PPP Infrastructure Development (CCEF-PPP)

To enable the recipient government to develop and implement measures for ensuring payments based on a sales-contract, thereby promoting infrastructure investments through PPP approach with the optimal risk sharing between the public and the private entities.

1. In the Private-Sector Investment Finance independent account, loans totaled ¥1.1 billion, affiliate companies' stock was ¥43 billion, and investment securities were ¥100 million as of March 31, 2015. Ordinary revenues were ¥36.4 billion (including dividends on investments of ¥36.2 billion) and net income was ¥36.1 billion in the year ended March 31, 2015. The independent account received the assets of the Private-Sector Investment Finance operations on October 1, 2008, 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 loss on valuation of affiliated companies' stock, loss on investment securities, interest on borrowing, provisions for the allowance for possible loan losses, outsourcing expenses, and other items involving Private-Sector Investment Finance. Revenues and expenses that are not directly related to Private-Sector Investment Finance, (depreciation, real estate expenses, personnel expenses, etc.) are not included in the independent account revenues and expenses.