ODA Loan and Private-Sector Investment Finance

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, in addition to poverty, global issues such as HIV/AIDS and other communicable diseases, air and water pollution, climate change, conflicts and terrorism, and financial crises have emerged. To address these issues, the international community set the Sustainable Development Goals (SDGs) 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

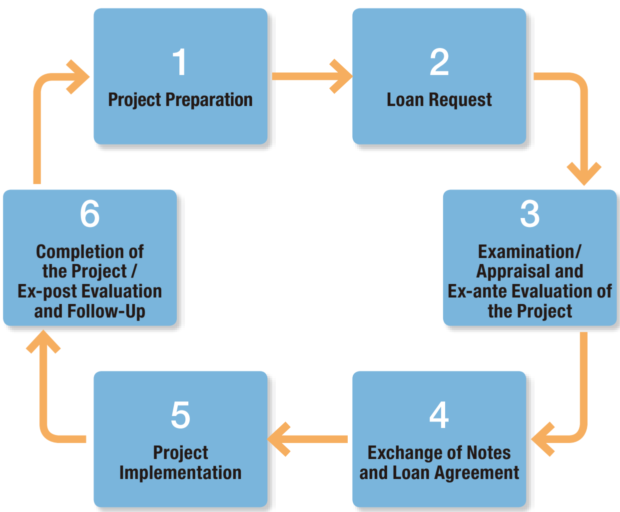
Support and Emphasize Ownership by the Developing Country

Ownership of developing countries is crucial for economic growth and poverty reduction in these countries. ODA Loans, which require repayment, promote efficient use of the borrowed funds and appropriate supervision of projects, thereby bolstering developing countries' ownership in the development process. In addition, as ODA Loans are 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 Loans: Project Cycle

ODA Loans follow 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.

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-size 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 (PSIF) 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.

● Scope of Support

PSIF 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

PSIF 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 PSIF through an independent account[1] and is reinforcing its capacity for project implementation, risk assessment and management.

Active Utilization of ODA Loans and Private-Sector Investment Finance Projects for Promotion of Quality Infrastructure Investment

At the 21st International Conference on the Future of Asia held in May 2015, Prime Minister Abe announced a slogan, "Partnership for Quality Infrastructure," and revealed Japan's additional support plans to address the huge demand for infrastructure. At the ASEAN Business and Investment Summit in November 2015, the prime minister proposed "follow-up measures for 'Partnership for Quality Infrastructure'" to embody the slogan announced in May. The plans to be implemented include the following drastic system enhancements.

JICA will promote quality infrastructure investment in harmony with foreign governments and international organizations as well as contribute to the socioeconomic growth of developing countries and regions by taking the SDGs into consideration.

1. Expansion and Acceleration of Assistance through JICA

1-1 Acceleration

In order to accelerate Loan Aid procedures;

(i) The period necessary for government-related procedures for ODA Loan projects will be reduced; and

(ii) With respect to Private-Sector Investment Finance (PSIF) projects, the period between the submission of applications from private companies and the initiation of JICA's appraisal will be shortened.

1-2 Expansion of the Coverage of Support

JICA will expand the coverage of PSIF, and encourage private investments through co-financing with private financial institutions. Furthermore, JICA will further enhance the attractiveness of Loan Aid through providing dollar-denominated loans and introducing the ODA Loan with Currency Conversion Option scheme to middle-income and upper-middle-income countries.

2. Collaboration with the Asian Development Bank (ADB)

2-1 Support for Public-Private Partnership (PPP) and Private Infrastructure Projects (Collaboration for Non-Sovereign Projects)

JICA will invest to establish a new trust fund at the ADB and provide investments and loans jointly with the ADB to private infrastructure projects and other quality PPPs through the trust fund. The amount of the investments and loans to be provided by the trust fund will be up to $1.5 billion over the next five years.

2-2 Support for Public Infrastructure Investment (Collaboration for Sovereign Projects)

To promote quality infrastructure investment in public sector, JICA and the ADB will work together to develop long-term support plans and provide technical cooperation and loans to foreign governments. The amount of aid to be provided by JICA and the ADB in this initiative will be a total of $10 billion over the next five years.

The Government of Japan, JICA, and the ADB will have high-level policy dialogues on a regular basis to facilitate quality infrastructure investments under the above-mentioned initiatives.

1. In the Private-Sector Investment Finance independent account, loans totaled ¥1,293 million, affiliate companies' stock was ¥41,753 million, and investment securities were ¥924 million as of March 31, 2016. Ordinary revenues were ¥24,439 million (including dividends on investments of ¥24,369 million) and net income was ¥23,315 million in the year ended March 31, 2016. 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.