

TO ATTAIN SUSTAINABLE ECONOMIC DEVELOPMENT -CONTINUED EMPHASIS ON ECONOMIC INFRASTRUCTURE AND ENVIRONMENT-RELATED PROJECTS-

OECF (The Overseas Economic Cooperation Fund, Japan: President, Chairman of the Board, Akira Nishigaki) and India today signed loan agreements totaling 132,746 million yen for 11 development projects. The agreements were signed by Mr. Akira Nishigaki, President, Chairman of the Board and H. E. Mr. Kuldip Sahdev, Ambassador Extraordinary and Plenipotentiary of India to Japan. This brings to 132 the cumulative number of loans committed by OECF to India, making the total for OECF loan commitments to India approximately 1.5 trillion yen.

The loan package comprises three environmental projects (water supply & sewerage and afforestation), two urban transport projects, five electric power projects, and one irrigation project. An outline of the loan package is given below.

1. OUTLINE OF THE PACKAGE

(1) Continued Emphasis on Environmental Aspects

Environmental protection is essential for sustainable development. Development that merely gives higher incomes but causes the quality of life to deteriorate, now or in the future, is essentially meaningless. In addition to development of economic infrastructure, the FY 96 loan package to India emphasizes environmental protection.

1) Afforestation

Population growth in rural areas has led to the inhabitants' increased need for firewood for fuel and for forest resources for keeping cattle, causing forest coverage to shrink rapidly. Residents' participation in afforestation projects is essential for effective implementation of projects and operation and maintenance of related facilities. Training for state government staff and residents, and feedback from experience to date to give improved project implementation methods are also increasingly required.

Since 1991, OECF has implemented three afforestation projects (Afforestation and Pasture Development Project along the Indira Gandhi Canal Area, Afforestation Project in Aravali Hills, Rajasthan Forestry Development Project) in the State of Rajasthan, the largest dry area in India. In 1995, OECF extended a loan for the Gujarat Afforestation and Development Project. The FY96 package includes two afforestation projects: the Tamil Nadu Afforestation Project and the Eastern Karnataka Afforestation Project.

In selecting the FY96 afforestation projects, OECF did its utmost to ensure that systems enhancing incentives for local residents' participation were incorporated in the projects. They will be encouraged in every way possible to involve themselves in the planning of project implementation, as well as in the maintenance of related facilities, making it possible to reflect their needs in project designing. For example, they will be allowed to utilize forest resources, cutting down trees, after an agreed period of afforestation, to the extent that adequate reproduction of resources is not impaired. NGOs are actively relied on as bridges linking policy makers (state governments) and residents (beneficiaries), and for identifying the needs of the latter.

Afforestation projects also make for increased employment opportunities for women and the poor, giving more equitable distribution of the economic gains of development.

2) Water Supply and Sewerage

In many provincial towns and cities in India, the wave of urbanization accompanying economic development has resulted not only in water supply inadequacy, but also in seriously insufficient access to safe drinking water. People must obtain water from wells and ponds for drinking, where there are no proper water supply and sewerage facilities. Water supply and sewerage projects are directly linked to basic human needs. The FY96 Kerala Water Supply Project is intended to enhance residents' welfare by increasing the supply of safe water in five cities and towns in Kerala, including the capital of the State.

(2) Building Economic Infrastructure

Economic activities must be invigorated and foreign capital must be introduced, if sustained economic growth is to be attained. OECF loans to India focus on the development of economic infrastructure with major spill-over effect helping to create an enabling environment for domestic and foreign businesses operating in the country.

1) Electric Power

Chronic shortages of power have been a major bottleneck to economic growth for India. In addition to assisting construction of new power stations to increase generation capacity, OECF also assists projects designed to reduce transmission loss, stabilize power supply, and make it easier to adjust supply-and-demand as between states by the constructing of transmission lines. Renovation and rehabilitation of older power plants is also being implemented.

In the FY96 package, projects for the construction of new power stations are the Simhadri Thermal Power Station Project and the Tuirial Hydro-Electric Power Station Project. Transmission projects are: the Northern India Transmission System Project and the West Bengal Transmission System Project. The Umiam Hydro Power Station Renovation Project is a renovation project. The total loan amount for the power sector projects is 52.8 billion yen.

2) Urban Transport

Due to the urbanization resulting from economic growth, traffic congestion in urban areas has increased, causing the fear of rapidly worsening air pollution by exhaust emissions from vehicles. The FY96 projects are aimed at improving traffic flow and conservation of the urban environment in India's two largest cities, Delhi and Calcutta.

The Calcutta Transport Infrastructure Development Project is designed to alleviate traffic jams and to give smoother traffic flow in the center of Calcutta by improving intersections and constructing flyovers.

The Delhi Mass Rapid Transport System Project, one of the priority projects in the 8th Five Year plan, aims to build a mass transit system to cope with traffic congestion and air pollution caused by the increased use of buses and private cars in recent years by constructing subways and surface and elevated railways.

3) Irrigation

Although India became self-sustaining in food grains in the '70s, its agricultural productivity is still lower than that of other Asian countries. In order to feed a growing population in the future and raise the nutrition levels of the country's people, it is necessary to enhance agricultural productivity. Since agriculture is a primary source of income for the poor in rural areas, irrigation projects are expected to play an important role in reducing poverty.

The Rajghat Canal Irrigation Project is intended to effectively utilize rainfall in the monsoon season and to increase and stabilize agricultural output by providing irrigation facilities in Madhya Pradesh. 25% of the expected beneficiaries are from scheduled castes and tribes.

(3) Commitment Amount

The fiscal 1996 package amounting to 132,746 million yen (up 3.1% from the previous year) is the OECF's largest commitment to India. Environment-related projects account for 31% of the 1996 package, electric power for 40%, urban transport infrastructure for 19%, and irrigation for 10%.

Economic liberalization policies initiated by the Rao Administration on its inauguration in 1991 are being continued under the Gowda Administration, which took office in June, 1996. India, with its vast domestic market, is becoming increasingly attractive to international investors. It is, however, increasingly necessary not only to establish an appropriate legal framework for businesses, both domestic and from abroad, but also to create a favorable climate for investment in infrastructure development. In view of the growing need for economic infrastructure to fully actualize India's growth potential, continued assistance in the form of official loans, such as Yen Loans is essential both today and in the future.

| Project | Amount (Mil. Yen) | Interest Rate (% p.a.) | Repayment Period /Grace Period (years) | Tying Status |
|---------------------------------------|----------------------|---------------------------|---|----------------|
| Water Supply Improvement Project (II) | 9,000 | 2.7 2.3* | 30/10 | General-Untied |
| Expressway Construction Project | 4,505 | 2.7 2.3* | 30/10 | General-Untied |
| Total | 4,505 | 2.7 2.3* | 30/10 | General-Untied |

* for Consulting Services

2. PROJECT DESCRIPTION

(1) Turkmenistan - One of the World's Largest Producers of Natural Gas

Turkmenistan, one of the Central Asian countries which attained independence from the Former Soviet Union in 1991, is located in the interior of the Eurasian Continent, with the Kara Kum Desert accounting for about 80% of its territory. The country has borders in the north with Kazakhstan and Uzbekistan, in the south with Iran and Afghanistan. In the west, Turkmenistan faces the Caspian Sea. More than 70 % of the population are Turkmen of Turkish descent, and their culture has much in common with those of Turkey and Iran.

Under the leadership of President Saparmurad Niyazov, Turkmenistan pursues a neutral policy, remaining independent of any military bloc, and plays a significant role in regional political and security matters. In 1995, the country was officially designated a Permanently Neutral State by the General Assembly of the United Nations.

Since the collapse of the Soviet Union, the countries surrounding the Caspian Sea, including Turkmenistan, richly endowed with natural resources, in particular major deposits of gas and oil, have attracted the attention of the world's private sector, which hopes for opportunities to participate in their development. Turkmenistan is the second-largest producer of natural gas in the Former Soviet Union (second only to the Russian Federation), with gas reserves said to be equal to almost 141 years' consumption in Japan. To exploit these abundant natural gas reserves, the Government of Turkmenistan plans to construct gas pipelines linking Turkmenistan with foreign markets. The government is undertaking a series of economic reforms to transform the economy into a market-oriented economy to attract and mobilize private capital for the country's future development.

(2) Background to and Need for the Project

Turkmenistan's Railways, with an operating length of 2,269 km, have been developed as a major mode of transportation since the Soviet era, and have a competitive advantage over other modes for long-distance and bulk transportation of commodities such as oil products and construction materials. The country's railways account for more than 90% of general cargo carried (excluding pipelines) on a ton-kilometer basis. The Government makes modernization of the railway sector a top national priority and pursues an active policy for rehabilitation and construction of railway lines connecting the country with its neighbors in order to promote exports of oil products, cotton and the country's other major industrial products. In May 1996, a new railway line linking Turkmenistan and Iran was opened, the event attracting interest in the international media as the " opening of a Silk Road Railway".

Following the breakup of the Soviet Union, the rolling stock which had been owned by the Soviet Railways was divided up among the various new national railway organizations, with Turkmenistan Railways taking over 331 locomotives. However, 191 of the 331 were produced in the 1970s and 106 in the 1980s. The number of operational locomotives is at present a mere 247 (48 of which are currently undergoing inspection at existing locomotive workshops in the country), and operating performance has been deteriorating year by year. This situation is expected to become even more serious in the future, as demand for railway traffic is expected to increase.

An efficient maintenance system for locomotives is a critical factor in keeping rolling stock operative. The existing maintenance system is not adequate even for routine inspection, because of aging equipment and lack of spare parts. In addition, as there are no major facilities for overhaul work on locomotives in Turkmenistan, they have to be sent to the Ukraine for overhaul. However, sending locomotives to the Ukraine for repair is a considerable burden for Turkmenistan, because of (1) the time required (one month on average), (2) uncertainty regarding date of completion and poor quality of work, and (3) shortage of foreign currency. Currently, railway operations in Turkmenistan are subject to restrictions on speed and freight volume in order to ensure operational safety, and this is a bottle-neck hindering smooth railway transportation. It is, therefore, urgently necessary to renovate existing equipment and procure new equipment in order to make it possible to do overhaul work on locomotives within the country.

(3) Purpose and Description of the Project

Under the project, an obsolete repair locomotive workshop in Ashkabad is to be renovated and new equipment introduced to raise repair capacity to overhaul level. This will enable Turkmenistan to improve its total railway transportation capacity by repairing its own locomotives and save foreign currency by eliminating the need to send rolling stock to the Ukraine for overhaul. In addition, the project is expected to contribute to improved safety and efficient commercial services on the railway system by modernizing computer systems (an automatic ticket system, optical fiber lines for tracking system, etc.) which are less developed than those of neighboring countries. Consulting services will also be provided under the loan to strengthen the capacity of Turkmenistan Railways through examination of the auditing and fare systems.

The proceeds of the OECF loan will be used for the procurement of services and goods for the project. OECF has assisted this project from the preparatory stages, with Special Assistance for Project Formation (SAPROF) being provided in February 1997.

The Executing Agency for the project is Turkmenistan Railways.

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