

YEN LOAN FOR REHABILITATION OF THE TRUNK ROAD BETWEEN TWO MAJOR CITIES - First Co-finance Project with International Organization in Central Asia -

OECD (President, Chairman of the Board, Mr. Akira Nishigaki) decided to provide the Kyrgyz Republic with a loan for the Bishkek-Osh Road Rehabilitation Project amounting to 3,016 million yen.

In addition to the two commodity loans provided in October, 1993 and November, 1994, OECD provided the loan for the Bishkek-Manas International Airport Modernization Project, which was the first project loan to the Kyrgyz Republic, in June, 1996. This time it is the fourth loan in total and the second loan as a project loan for OECD to provide to the Kyrgyz Republic.

The loan agreement was signed today in Bishkek, the capital of the Kyrgyz Republic, by Mr. Koji Fujimoto, Managing Director, Operations Department II, and Mr. A. D. Dzhamugulov, Prime Minister of the Kyrgyz Republic.

Amount, conditions of the loan, and outline of the project are as follows.

1. Loan Amount and Conditions

Project	Amount (Mil. Yen)	Interest Rate (%/year)	Repayment Period (year) (Grace Period)	Tying Status
Bishkek-Osh Road Rehabilitation Project	3,016	2.3 %	30(10)	General Untied

2. BACKGROUND FOR THE ASSISTANCE TO THE KYRGYZ REPUBLIC

The Kyrgyz Republic is located in the center of the Central Asian region. Most of its territory is occupied by the Tien-shan range, and only about 7 % of its land is arable. The republic ranks one of the lowest among the former Soviet Union (FSU) republics in terms of GDP per capita. Agriculture sector is the main industry of the country, where wheat and cotton are cultivated with abundant water flow from the Tien-shan range.

With the collapse of FSU, the Kyrgyz Republic achieved its independence on August 31, 1991. Since then the republic has been the most enthusiastic country in FSU in economic reform. The republic was faced with diverse kinds of economic difficulties such as contraction of production, decrease of trade, and hyper-inflation (exceeding 1,500 - 2,000% / year), mainly caused by the collapse of the previous centrally planned-economic system. However, despite such confusion, the republic commenced review of then existing economic system, inherited from the Soviet era, and has carried out its overall reform targeting transition into a market economy system. In June 1992, the republic announced its comprehensive economic reform plan, with the support from IMF, including liberalization of prices, deregulation regarding international trade, reduction of fiscal expenditure, rearrangement of taxation, and privatization of state owned companies. In May 1993, its own currency "Som" was introduced in advance of other Central Asian countries. As a result of those aggressive reform, economic stabilization was appeared in around 1994 and GDP turned into positive growth in 1995, first time since its independence. The annual GDP growth rate in 1996 recorded 5.6 %.

In order to support the efforts of the republic, OECD provided two commodity loans, "Rehabilitation Loan (6,500 million yen)" and "Sector Program Loan (3,127 million yen)", in October 1993 and November 1994 respectively to support the stabilization of its macro-economic situation. Subsequently, OECD extended the first project loan for "Bishkek-Manas International Airport Modernization Project" in June 1996, reflecting transition of economic status from stabilization to growth of macro-economy in the republic. "The Bishkek-Osh Road Rehabilitation Project (5,454 million yen)", for which the loan agreement was signed today, plans to rehabilitate the truck road connecting two major cities named Bishkek, the capital of the republic, and Osh, the second largest city in the republic. These cities are separated by the Tien-shan range. Smoother traffic between two major cities, equivalent of Tokyo and Osaka in Japan, is expected to promote economic growth of the republic. Besides, this project is the first co-financed project by OECD and the Asian Development Bank (ADB) in Central Asia.

3. PROJECT DESCRIPTION

Bishkek-Osh Road Rehabilitation Project

Rehabilitation of the principal trunk road running through the Kyrgyz Republic to ensure all year traffic

The Kyrgyz Republic is located at the western edge of the Tien-shan range, and 90 % of its territory exceeds 1,500m above sea level. The land is divided into two parts, northern and southern parts by mountains. The northern part is developed as an industrial area with the capital Bishkek as a central city, and the southern part, including the second largest city Osh, is mainly covered by agricultural land. Due to this geographical factor, transportation in the republic mostly depends on cars and trucks, thus, road is one of the most important economic infrastructures for the republic.

The Bishkek-Osh Road (hereinafter referred to as "the Road") reaches 619km in total length and connects two major cities named Bishkek, the capital of the republic, and Osh, the second largest city. The Road plays a very important role as a trunk road like "Tokai-do", which is one of the most important traffic routes, connecting two largest cities Tokyo and Osaka, in Japan for passenger and freight traffic. In addition, the Road consists a part of international route leading to Russia via Almaty (capital of the Republic of Kazakhstan) in north and Uzbekistan or Tajikistan in south. However, the surface of the Road has been heavily deteriorated due to the reduction of maintenance budget caused by economic confusion after the country's independence. When an avalanche or a landslide occurs on the Road, recovery works take a long time because of breakdown and overage of maintenance equipment.

This project is consisted of two components, to rehabilitate 135km of 619km where urgent rehabilitation is necessary, and, to procure equipment for maintenance work, with a view to improve the current road condition and to ensure a year round smooth traffic. The proceeds of OECD loan will be used for the procurement of materials and civil works of the project. This project is co-financed with the Asian Development Bank (ADB). ADB and OECD will finance the rehabilitation work in parallel scheme in which OECD is in charge of 38km out of 135km. Only OECD loan covers procurement of equipment, such as bulldozers or trucks.

The executing agency of the project is the Directorate General for Rehabilitation and Maintenance of the Bishkek-Osh Road (42, Isanova Street (6th floor), 720079 Bishkek, Kyrgyz Republic, TEL: +7-3312-26 26 72, FAX: +7-3312-62 17 10).