

FIRST YEN LOAN TO GEORGIA

Japan Assists Modernization of Two Hydro-power Plants

OECF (President, Chairman of the Board, Mr. Akira Nishigaki) is to provide Georgia with a loan for the Power Rehabilitation Project amounting to 5,332 million yen.

The loan agreement was signed today in the Presidential Office in Tbilisi, Georgia, by Mr. Akira Nishigaki, Chairman of the Board, and H.E. Mr. Michael Chukuaseli, Minister of Finance of Georgia.

This is the first OECF loan to Georgia, the 87th country to receive an OECF Loan.

1. Loan Amount and Conditions

Project	Amount (Mil. Yen)	Interest Rate (% p.a.)	Repayment Period /Grace Period (years)	Tying Status
Power Rehabilitation Project	5,332	2.3	30/10	General-Untied

2. Project Description

(1) Georgia

Georgia, one of the Caucasian countries which attained independence from the Former Soviet Union in 1991, has borders in the north with Russia, in the south with Armenia and Turkey and in the east with Azerbaijan, and in the west there is the Black Sea Coast. The country, located at the crossroads of Europe and Asia, has played a significant role in trade in the Eurasian Continent throughout history. The country's Black Sea Coast is internationally famous as a seaside resort area, and about 2 million tourists visited the region each year during the Soviet period.

Since independence in 1991, Georgia's economy has suffered as a result of the consequences of the collapse of the centralized system of supply and the breakdown of inter-republic ties. In Georgia, these problems common to all former Soviet republics were compounded by shortages of energy and the political instability engendered by widespread conflict in South Ossetia and Abkhazia. The cumulative decline in real GDP is estimated to have been more than 70 % between 1990 and 1994, and by the end of 1996, the scale of Georgia's economy had shrunk to around one-third of its size in 1989. These figures illustrate how dramatic economic decline in Georgia was in those years, even when compared with the other former Soviet Republics and the East European Countries, with the averages for economic scale in 1996 for the two groups being, respectively, 56 % and 92 % of those in 1989.

Nevertheless, throughout 1995 and 1996, quite significant progress was achieved in economic restructuring and political stabilization, with continuous assistance from the international community and cease-fires in ethnic conflicts. In August 1995, a new Constitution was approved by the Parliament. In November, a Presidential election was held, and Eduard Shevardnadze, former Foreign Minister of the Soviet Union, well-known in Japan for his significant efforts to pursue the "Perestroika (Reconstruction) " policy in cooperation with then President of the Soviet Union, Mikhail Gorbachev, was inaugurated as President, with the support of the majority of Georgia's voters. Decisive action taken by his administration to promote the transition to a prosperous and growing market economy has been bearing fruit, and the country achieved annual GDP growth of more than 10 % in 1996. This figure for annual growth in 1996 was the highest of all the former Soviet Republics and shows that the country is now set to enter a phase of economic renewal.

(2) Background to and Need for the Project

The total installed capacity of Georgia's domestic power plants is about 4,673 MW, of which hydropower accounts for around 58%. Since the break-up of the Soviet Union, deterioration of hydro plants and power system facilities in general, due to lack of proper operation and maintenance, has led to a decline in domestic generation capacity to 1,884 MW (around 40% of capacity), and annual hydro generation declined to 44% of that of 1989. Georgia currently depends on imported electricity from neighboring countries for between 10 and 20 % of total electricity demand.

The steep downturn in the country's industrial output, combined with severe energy supply shortages, resulted in a steady decline of gross electricity consumption from independence in 1991. However, as the country has seen a positive economic trend since 1995, electricity demand is expected to grow in the near future. As the existing power plants and power system facilities are in urgent need of repair and cannot be expected to meet increasing electricity demand, the Government makes rehabilitation in the electricity sector one of the top national priorities in its Public Expenditure Plan. Rehabilitation of hydro power generation facilities is particularly important in Georgia, a country rich in water resources but which must depend on imported gas and oil for resources necessary for thermal power generation. Similarly, urgent measures are needed to renovate electricity control systems to ensure an adequate level of system integrity and reliability.

(3) Purpose of the Project

Under the project, the Lajanuri Hydro Power Plant (commenced operation 1962, 110 MW) and the Khurami Hydro Power Plant (commenced operation 1960, 111 MW) are to be renovated and new equipment installed to increase power generation capacity and meet the increasing demand for electricity. In addition, the project is expected to contribute to improved system integrity and reliability in the electricity supply system by modernizing control centers in Tbilisi and telecommunication systems throughout the country. Consulting services will also be provided under the loan to support implementation of the project.

The Project is part of a power sector rehabilitation program amounting to \$123 million to renovate power generation facilities throughout the country, and is assisted by the World Bank, KfW (Germany) and Italy (grant assistance), in addition to OECF.

It is expected that through implementation of the program Georgia will be able to close the electricity supply-and-demand gap by 2003.

The proceeds of the OECF loan will be used for the procurement of goods and services for the project, including consulting services.

The Executing Agencies for the project are Sakenergeneratsia and Sakenergo.

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