

October 26, 1998

ODA LOAN FOR REHABILITATION OF THE TRUNK ROAD BETWEEN TWO MAJOR CITIES

-Co-finance Project with Asian Development Bank to Strengthen North-South Relations in the Kyrgyz Republic-

The OECF (The Overseas Economic Cooperation Fund, Japan: President, Chairman of the Board, Mr. Kyosuke Shinozawa) is providing the Kyrgyz Republic with a loan for the Bishkek-Osh Road Rehabilitation Project II amounting to 5,250 million yen.

In addition to the two non project loans provided in October 1993 and November 1994, OECF provided two project loans for the Bishkek-Manas International Airport Modernization Project, in June 1996 and Bishkek-Osh Road Rehabilitation Project, which was phase I of this project, in March 1997. This is the fifth loan in total and the third loan as a project loan for OECF to provide to the Kyrgyz Republic.

Mr. Kyosuke Shinozawa, and Mr. Urkaly T. Isaev, Chairman, the State Committee of the Kyrgyz Republic on Foreign Investment and Economic Development, signed the loan agreement on October 26, 1998 in Tokyo.

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

1. LOAN AMOUNT AND CONDITIONS

Project Name	Amount (Mil.yen)	Interest Rate (%/year) [Consulting Services]	Repayment Period / Grace Period (Year)	Tying Status
Bishkek-Osh Road Rehabilitation Project II	5,250	1.8 % [0.75 %]	30(10) [40(10)]	General Untied [Bilateral Tied]

Special Environmental Project

2. CURRENT ECONOMIC SITUATION OF THE KYRGYZ REPUBLIC AND OECF ASSISTANCE

The Kyrgyz Republic is located in the center of the Central Asian region where the most of its territory is occupied by the Tien-shan range. Agriculture sector is the main industry of the country, where wheat and cotton are cultivated with abundant water flow from the range.

With the collapse of the Former Soviet Union (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 hyperinflation (exceeding 1,000% / year), mainly caused by the collapse of the previous centrally planned-economic system. However, despite such confusion, the republic commenced review of then existed 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 price liberalization, deregulation regarding international trade, reduction of fiscal expenditure, rearrangement of taxation, and privatization of state owned companies. In May 1993, its national currency "Som" was introduced in advance of other Central Asian countries. As a result of such reforms, economy started to stabilize from around 1994. Then, GDP turned into positive growth in 1996, first time since its independence, and it recorded 6.5%.

In order to support the efforts of the republic to stabilize its macro economy, OECF provided two non- project loans, "Rehabilitation Loan (6,500 million yen)" and "Commodity Loan (3,127 million yen)", in October 1993 and November 1994. Subsequently, OECF extended the first project loan for "Bishkek-Manas International Airport Modernization Project" in June 1996 and "The Bishkek- Osh Road Rehabilitation Project (5,454 million yen)" in March 1997. OECF has been providing its loans that are suitable for the economic situation of the republic, from the stage of macro economic stabilization to the stage of the economic development.

(Reference)

Project Name	Date of Approval	Amount of Approval (Million Yen)
Rehabilitation Loan	October, 1993	6,500
Commodity Loan	November, 1994	3,127
Bishkek-Manas International Airport Modernization Project	June, 1996	5,454
Bishkek-Osh Road Rehabilitation Project	March, 1997	3,016
Bishkek-Osh Road Rehabilitation Project II	October, 1998	5,250
Total 5 Projects		23,347

3. PROJECT DESCRIPTION

Bishkek-Osh Road Rehabilitation Project II

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 the range. The northern part is developed with the capital Bishkek, and the southern part with the second largest city Osh, as central cities. 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 significant 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 is taking a part of international route leading to Russia via Almaty (former 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 lack of proper maintenance during the Soviet era and the reduction of maintenance budget caused by economic confusion after the country's independence. When an avalanche and a landslide occur on the Road, recovery works take a long time because of breakdown and overage of maintenance equipment. Therefore, OECF has provided a loan for phase I of this project in March, 1997, for urgent rehabilitation of 38km and to procure maintenance equipments.

This project has its main purpose to rehabilitate additional 208km of 619km mainly passing the Tien- shan range where urgent rehabilitation is necessary, with a view to improve the current road condition and to ensure smooth traffic. The proceeds of the loan will be used for the civil works for 128km of 208km and consulting services. This project is co-financed with Asian Development Bank (ADB), followed by the phase I of this project.

The executing agency is the Ministry of Transport and Communication (42, Isanova Street (6th floor), 720079 Bishkek, Kyrgyz Republic, TEL: 7-3312-262672, FAX: 7-3312-621710).

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