

Japan Bank for International Cooperation Provides the First ODA Loan -Continued Assistance for Gas Combined Cycle Power Plant Project-

Japan Bank for International Cooperation (JBIC; Governor: Hiroshi Yasuda) signed on October 14, 1999, an ODA Loan Agreement totaling up to 18,332 million yen to finance "Severnaya Gas Combined Cycle Power Project (II)" in Azerbaijan.

The loan agreement was signed at the Head Office of JBIC in Tokyo by JBIC Governor Hiroshi Yasuda and Deputy Prime Minister of Azerbaijan Republic H.E. Abid SHARIFOV.

This is the second ODA Loan provided to Azerbaijan Republic, following the first commitment totaling 20,699 million yen extended for "Severnaya Gas Combined Cycle Power Project". The proceeds of the loan will be used to construct a highly- efficient natural gas-fired power plant, thereby helping reduce the level of air pollution and curb the emission of global-warming gas. Accordingly, the most concessional interest rate for special environmental projects is applied to this project; the loan condition is an interest rate of 0.75% and repayment period of 40 years (including 10 years of grace period). This is the first ODA Loan commitment provided by the newly created JBIC.

1. Loan Amount and Conditions

Project Name	Amount (Mil. yen)	Interest Rate (%)		Repayment Period / Grace Period (Years)		Tying Status	
		Goods & Services	Consulting Services	Goods & Services	Consulting Services	Goods & Services	Consulting Services
Severnaya Gas Combined Cycle Power Plant Project(II)	18,332	0.75* 0.75*	0.75*	40/10 40/10	40/10	General Untied** Partially Untied***	General Untied**

* Special environmental project

** Power plant portion

*** Gas pipeline portion

2. Project Description

Severnaya Gas Combined Cycle Power Plant Project (II)

(1) Azerbaijan Republic

-Potentially oil rich country enjoying worldwide attention-

Azerbaijan Republic, one of the Caucasian countries which attained independence from the former Soviet Union in 1991, shares the borders in the north with Russia and Georgia, in the south with Iran, and in the west by Armenia, while facing the Caspian Sea in the east. In the early 20th century, the capital city Baku was bustling with oil boom, and its prosperity was such that the city was dubbed as "a producer of half the oil worldwide". During the Soviet Era, Azerbaijan boasted the third largest output of crude oil within the region after Russia and Kazakhstan. The total volume of oil reserves was estimated about 28.5 billion barrel at the end of 1995.

Immediately after independence, economy of Azerbaijan significantly deteriorated due to the impact of the prolonged conflict with neighboring Armenia. The gross domestic production once fell down to about 37% in 1994 of that of 1991, the year of independence. In May 1994, however, the agreement of a cease-fire was signed with Armenia, thereby restoring political and economic order and stability. Massive foreign direct investment started flowing into projects, especially for the oil exploitation in the Caspian Sea, thus giving steam to the service and construction sectors. Reflecting these changes, Azerbaijan achieved positive GDP growth of 1.3% in 1996 for the first time since independence, and registered a 5.8% growth in 1997 fueled by the robust increase of FDI. In 1998, boosted by the full-fledged commercial production of the oil field off the Caspian Sea, Azerbaijan posted a whopping 8.1% growth despite the Russian crisis and sluggish crude oil prices. Steady growth is expected to continue in the years to come, led by the inflow of foreign investment destined to the oil development industry.

(2) Background and Necessity of the Project

The total installed capacity of electricity in Azerbaijan is approximately 5,100 MW. 84% of which is thermal power using the abundant oil reserves in Azerbaijan. Because of obsolete facilities and the lack of proper maintenance, however, generation capacity has dropped to nearly 4,200 MW. Without proper investment, the capacity will continue to fall further.

After independence from the former Soviet Union in 1991, Azerbaijan had a drastically declining GDP, and demand for electricity also decreased. Since 1996, however, the economy has been on a strong recovery path. Reflecting this, electricity demand is increasing beyond existing capacity. In response, the Government of Azerbaijan drew up the Medium-Term Investment Program (1997-1999). This Program designates the power sector as the most important sector, with total budget allocated for this sector reaching nearly US\$600 million or one-fourth of total investments in the Program.

Most of the power plants in Azerbaijan are oil-fired and are in poor condition. Energy efficiency is deteriorating. On top of that, these plants have been emitting a large amount of SOx, which damages the environment. Directing attention to the accompanying gas produced with oil, the government of Azerbaijan, in an effort to develop the power sector, plans not only to rehabilitate existing power plants, but also to convert them into natural gas combined cycle power plants¹, which are more energy efficient and more environmentally friendly.

(3) Purpose and Description of the Project

This project is aimed at constructing a gas combined cycle power plant (400MW) to replace the existing thermal power plant (150MW) located on the outskirts of Baku, the capital of Azerbaijan Republic, with a view to the environmental considerations. The project is also designed to ensure the stable supply of power to the metropolitan area, whose demand for power is expected to grow as development of petroleum proceeds.

The new plant will help improve environment by reducing air pollution as follows: (1) SOx will not be produced; (2) High efficiency in power generation will cut by half the annual amount of discharged NOx. Regarding the annual discharge of CO2, the new plant will emit only less than half the amount a thermal plant of the same size would produce, thus contributing to reducing the emission of global-warming gas.

The proceeds of the loan will be used for the procurement of goods and services, as well as consulting services (assistance for procurement, supervision, assistance for the Environmental Impact Assessment (EIA), etc.) necessary for the implementation of the project. The loan agreement corresponds to the phase II of "Severnaya Gas Combined Cycle Power Plant Project", for which the first ODA Loan was provided in February 1998 totaling 20,699 million yen, and finances the portion that remains uncovered.

1. A type of power plant which fires natural gas at a gas turbine and reuses exhaust steam at a steam turbine.(back)

2. Azerenerji is an institution that undertakes power generation, distribution, and transmission in the country.(back)

3. Azerigaz is an institution responsible for transportation and supply of gas, as well as construction, maintenance and administration of gas pipelines. (back)