

JBIC ASSISTS MEXICO'S WATER SUPPLY AND SANITATION PROJECT

-ODA Loan Agreement Signed -

1. Japan Bank for International Cooperation (JBIC; Governor: Hiroshi Yasuda) signed an agreement in Mexico City today to provide an ODA loan totaling up to 22.148 billion yen to the Banco Nacional de Obras y Servicios Publicos, S.N.C. for the "Baja California Water Supply and Sanitation Project" in Mexico. With this loan, JBIC has made 9 ODA loan commitments to Mexico to date for a cumulative total of 205.441 billion yen.
2. Mexico has traditionally placed a premium on economic relations with the United States, making significant efforts to develop contiguous states with its northern neighbor. In recent years, Baja California, a state in the northwestern Mexico, has experienced the fastest growth in the country, creating a significant concentration of population, especially in Tijuana, Mexicali and Ensenada in the Maquiladora, an export zone. However, the infrastructure for water supply and sanitation lags far behind population growth, and there is growing concern that this may create a bottleneck for economic development. In addition, untreated sewage has flowed into the neighboring Salton Lake and the Gulf of California, degrading the environment and thereby causing a bilateral problem with the United States.
3. In light of this development, JBIC decided to provide an ODA loan for the "Baja California Water Supply and Sanitation Project." The project is designed to develop infrastructure, including the building of water purification and sewage treatment facilities, and the laying of water and sewage pipes in the three major cities in the state, Tijuana, Mexicali and Ensenada. This will help improve living conditions for the urban population and mitigate water pollution in Salton Lake and the Gulf of California, the source of a bilateral problem with the United States.

(See Appendix for more information.)

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-- ODA Loan Agreement Signed--

Japan Bank for International Cooperation (JBIC; Governor: Hiroshi Yasuda) signed an agreement in Mexico City today to provide an ODA loan totaling up to 22.148 billion yen for "the Baja California Water Supply and Sanitation Project" in Mexico. JBIC Deputy Governor Youseki Nagase and General Director José Luis Flores Hernández of the Banco Nacional de Obras y Servicios Públicos, S.N.C. signed the loan agreement.

Including this loan, JBIC has made 9 ODA loan commitments to Mexico to date for a cumulative total of 205.441 billion yen.

1. Loan Amount and Conditions

Project Name	Amount (Mil. yen)	Interest Rate (%/Year)		Repayment Period / Grace Period (Year)		Tying Status	
		Project proper	Consulting Services	Project proper	Consulting Services	Project proper	Consulting Services
Baja California Water Supply and Sanitation Project	22,148	2.5* 1.8***	1.8**	25/7	25/7	General Untied	General Untied

* Interest rate applicable to standard environmental projects

** Interest rate applicable to special environmental projects

*** Interest rate for special environmental projects is applicable to some portion of the project

2. Profile of the United Mexican States

The United Mexican States is a country with a population 94.35 million, sharing borders in the north with the United States, and in the south with Guatemala and Belize. Winning independence from Spain in 1821, the country is now a federal republic comprising 31 states and one federal district.

In the 1980s, the Mexican economy remained sluggish due to accumulated foreign liabilities and the falling price of crude oil. However, under the administration of President Carlos Salinas de Gortari who took office in 1988, the level of foreign debts was lowered, privatization promoted, and a liberalization policy implemented which allowed entry of the foreign investment, thereby leading the economy to a steady growth track. The country's outward position was also improved, as attested to by the signing of NAFTA and acquiring OECD membership. Although Mexico was hit in 1994 by a currency crisis (Tequila Shock) caused by the flight of the short-term foreign capital, it overcame its plight with the help from IMF, the United States and others. The economy of Mexico has been on a steady growth path ever since. With GNP per capita reaching \$3,970 as of 1998, Mexico is regarded as a middle-income country under the World Bank guidelines.

On the other hand, the country's environmental problems including air and water pollution are going from bad to worse. In addition, the size of the income differential is the largest in Latin America.

3. Project Description

Baja California Water Supply and Sanitation Project

(i) Background and Necessity of the Project

Mexico has traditionally placed a premium on economic relations with the United States, making significant efforts to develop the contiguous states with its North American neighbor. In recent years, Baja California, a state in the northwestern Mexico, has experienced the fastest growth in the country, creating a significant concentration of population, especially in the Maquiladora, a designated export zone, located along the border of the U.S. and Mexico, and centered at Tijuana, Mexicali and Ensenada. However, infrastructure of the water supply and sanitation lags far behind population growth, and there is growing concern that this may create a bottleneck for economic development. In addition, untreated sewage has flowed into the neighboring Salton Lake and the Gulf of California, degrading the environment and thereby causing a bilateral problem with the United States.

(ii) Purpose and Description of the Project

The Project is designed to develop infrastructure including the building of water purification and sewage treatment facilities, and the laying of water and sewage pipes in the three major cities in the state, Tijuana, Mexicali and Ensenada. This will help improve living conditions for the urban population and mitigate water pollution in Salton Lake and the Gulf of California, the source of a bilateral problem with the United States.

The proceeds of the loan will be applied to the procurement of goods and services, as well as consulting services (assistance for the procurement and construction coordination) necessary for the implementation of the project.

The project executor is the Baja California Water Commission (Comisión Estatal de Agua; address: Boulevard Federico Benítez 4057, Colonia 20 de noviembre, la Mesa, Tijuana; Tel & Fax: 52-66-34-0382).