

JBIC SIGNS ODA LOAN TO PROVIDE SAFE DRINKING WATER IN NEPAL

-- To Secure Safe Drinking Water and Improve Public Hygiene --

1. Japan Bank for International Cooperation (JBIC; Governor: Hiroshi Yasuda) signed today at its Tokyo head office an ODA loan agreement totaling 5,494 million yen to finance the Melamch Water Supply Project in the Kingdom of Nepal. This brings the cumulative ODA loan commitments by JBIC to the country to nine, totaling 63,529 million yen.
2. The project will finance civil works and procurement of goods and equipment related to construction of a water treatment plant necessary to secure a new water source to supply drinking water to Kathmandu, the capital of Nepal.
3. The percentage of the Nepalese population with access to water supply stood at 61% as of 1997. However, compared to the rural area, where the access has greatly increased, the urban area is lagging behind and unable to meet the rapidly increasing water demand brought about by the significantly accelerated population inflow since the 1980s. The population has been consistently on the rise since the 1960s in the Kathmandu Valley in particular, where the capital city is located. This has created a widening gap between the supply and demand of water. To close this gap, a new source of water supply must be developed. Water resources within the Kathmandu Valley, however, have been almost exhaustively developed. In addition, except for the upstream of a river on the northeastern edge of the Valley, it is extremely difficult both technically and economically to divert water from rivers running through the surrounding regions to the Kathmandu Valley which is situated at an altitude of 1,200 meters. As a result, diversion from the northeastern upstream part of the river is the only option available.
4. Therefore, the project will construct a water treatment plant, and an intake and sluice that are necessary to take water from the Melamch River on the northeastern edge of the Valley and divert it to Kathmandu City. It aims to address the deteriorating water supply situation caused by growing population in the urban areas of the Valley and improve the living conditions of residents. The project is expected not only to improve the water supply and public hygiene in the Kathmandu Valley, but bolster the country's tourism sector by developing a basic infrastructure as well.

(See Appendix for details.)

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Japan Bank for International Cooperation (JBIC; Governor: Hiroshi Yasuda) signed today at its head office in Tokyo an ODA loan agreement amounting to 5,494 million yen to finance the Melamch Water Supply Project in the Kingdom of Nepal. The signing took place between Royal Nepalese Ambassador to Japan, H. E. Mr. K. B. Mathema, and Governor Hiroshi Yasuda, JBIC. This has brought JBIC's cumulative ODA loan commitments to the country to nine, totaling 63,529 million yen.

1. Loan Amount and Conditions

Project Name	Amount (Mil. yen)	Interest Rate (%/Year)		Repayment Period/ Grace Period (Years)		Tying Status
		Goods and Services	Consulting Services	Goods and Services	Consulting Services	
Melamch Water Supply Project	5,494	1.0	0.75*	30/10	40/10	General Untied

* Interest rate for special environmental project

2. Politics and Economy of Nepal

The Kingdom of Nepal is a landlocked country in South Asia with a population of 21.56 million as of 1998, and shares borders with China in the north and India in the south. The country's major natural resources include scenic landscapes and hydroelectric power. Its scenic beauty is world famous in particular, and a large number of tourists visit Nepal to see the Himalayan Mountains and visit ancient Buddhist ruins.

Nepalese politics have been based on parliamentary democracy under a constitutional monarchy since direct rule by the King, which dates back to 1961, was abolished in 1990 amid heightened democratic movements. Although political instability continued through the 1990s, leading to frequent changes of government, relative stability was achieved after the government led by Prime Minister G. P. Koirala took office in March 2000.

Nepal is one of the poorest countries in the world, with a per capita GNP of \$220 (1999). Agriculture is the mainstay of the economy, accounting for 40% of GDP and 80% of the employment. Any change in the yield of principal crops such as rice, corn and sugarcane has a substantial effect on the overall economy. In fiscal year 1999/2000, the economy grew by 6%, bolstered by favorable agricultural crops and the export industry, including carpet manufacturing. However, increasing agricultural productivity, financial and fiscal reforms, diversification of exports and human development remain agenda items for further reduction of poverty.

3. Project Description

Melamchi Water Supply Project

(1) Background and the Need of the Project

In Nepal, the percentage of the population having access to water supply is 61% as of 1997. The situation varies considerably between the rural and urban area. In rural areas, access to drinking water has been increasing due in part to small-scale water supply facilities built by the support of aid agencies since 1970. By contrast, access to water supply has been consistently declining in the urban area because of a failure to address a significant increase in water demand associated with population inflows since 1980s. The population growth in the urban areas of the Kathmandu Valley, where the capital is located, rose from 2% in the 1960s to 4% in the 1970s and to 5% in the 1980s. This concentration of population in Kathmandu still continues, creating a gap between demand and supply of water.

To close this gap, a source of water supply has to be secured. However, water resources in the Valley have been almost exhaustively developed. In addition, except the upstream of a river in the northeastern edge of the Valley, diverting water from the neighboring rivers is difficult technically and economically because the Valley is situated at an altitude of 1,200 meters. Therefore, there is the need to divert water from this source.

(2) The Objective and Description of the Project

The objective of the overall project is to construct a water treatment plant, an intake, sluice, diversion tunnel, a volume distribution system and improve the existing water distribution network that are necessary to take water from the Melamch River in the northeast edge of the Valley and divert it to Kathmandu City. The present loan covers the construction of the water treatment plant. Specifically, the water taken from the River will be diverted through a 26-kilometer tunnel to the water treatment plant in the Valley, where it will be treated and pumped to the City. The project is expected not only to improve the water supply situation and public hygiene in the Kathmandu Valley, but bolster the country's tourism sector by developing a basic infrastructure as well. The Nepalese government plans to supply the minimum water required for all the citizens by the end of the 9th 5-year economic plan (July 2002). This project is being undertaken as part of this plan.

The executing agency is the Melamchi Water Supply Development Board (MWSDB) under the Ministry of Physical Planning and Works (MPPW).

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