

JBIC Signs ODA Loan Agreements with India

--To Fund Two Power Transmission Projects to Meet Increasing Demand--

1. Japan Bank for International Cooperation (JBIC; Governor: Kyosuke Shinozawa) signed today loan agreements in Tokyo for the Simhadri and Vizag Transmission System Project (II) and the West Bengal Transmission System Project (II) amounting to 6,400 million yen, and 3,127 million yen, respectively. The projects are being implemented by Transmission Corporation of Andhra Pradesh Limited (APTRANSCO) and West Bengal State Electricity Board (WBSEB).
2. In response to the nuclear tests conducted by India in May 1998, the Japanese government announced a freeze on providing ODA loans for new projects to India as part of its measures in accordance with the ODA Charter. Projects that are already in progress are, however, exempt from the measures. Both projects are regarded as continuing projects by the Japanese government. Loans for the projects are extended as economic measures because interruption of construction work could incur huge damage. The Japanese government announced the lifting of the loan freeze on India on October 26, 2001. Therefore, new ODA loan commitments to India now will be discussed by the governments of both countries.
3. The ODA loan for the Simhadri and Vizag Transmission System Project (II) will finance civil works, procurement of materials and equipment and consulting services for installing transmission lines and constructing and expanding substations in the vicinity of Vishakhapatnam in Andhra Pradesh. The loan for the West Bengal Transmission System Project (II), will finance civil works, procurement of materials and equipment and consulting services for installing transmission lines and constructing and expanding substations in the State of West Bengal, eastern India. JBIC has made loan commitments to the first phase of the two projects. The previous loan commitments amounted to 10,629 million yen (L/A was signed on December 1997) for the Simhadri and Vizag project and 11,087 million yen (L/A was signed in February 1997) for the West Bengal project. The present agreements are intended to provide continued financial support for the second phase of the two projects.
4. The Indian power sector is characterized by generation capacity and supply falling short of demand across the country. In particular, the western and southern states are suffering from serious power shortages as their industrial bases expand. In Andhra Pradesh, a state in southern India, power supply has not caught up with a sharp increase in demand resulting from industrial development. In fiscal 2000, the power supply fell short of demand by 11.3% during the peak hours, creating a bottleneck to its economic development. There is the need to expand power facilities to fill the gap. To deal with this problem, construction work is currently underway for two coal-fired thermal plants at Simhadri (1,000 MW), a project provided with an ODA loan, and Vizag (1,040 MW) in the vicinity of the Vishakhapatnam District, the industrial region of the state. To keep up with construction work on the new power plants, there is an urgent need to install additional high voltage major transmission lines and build new substations to bring power output to Hyderabad, a major center of power demand, and other areas. The Simhadri and Vizag Transmission System Project consists of installation of main transmission lines and construction of substations in an area that includes the 600 kilometer stretch between Vishakhapatnam and Hyderabad. The increase in power supply with this project is expected to boost industrial activity, thereby expanding employment, and increasing electrification in rural areas, spreading household use of electric power. This will improve the standard of living of the local populations.
5. West Bengal is a major state in eastern India, encompassing Calcutta, the country's third largest city, which has seen an expanding industrial base in recent years. This has led to a projection of robust 6.5% annual growth in power demand from 1999 to 2012. The state is also facing a substantial 36% transmission and distribution loss due to insufficient metering system, the low rate of tariff collection and pilferage. To deal with this situation, there is an urgent need to strengthen and expand the present transmission and distribution network in time for the completion of power plants currently under construction or being planned to ensure a stable delivery of increased output to high demand areas. The purpose of the West Bengal Transmission System Project is to expand power transmission capacity in West Bengal by strengthening and expanding its transmission and distribution system. The increase in power supply with this project is expected to boost industrial activity, thereby expanding employment, and increasing electrification in rural areas. This will spread household use of electric power, thereby improving the standard of living of local populations.

(See Appendix for details.)

Japan Bank for International Cooperation (JBIC; Governor: Kyosuke Shinozawa) signed today loan agreements for the Simhadri and Vizag Transmission System Project (II), being implemented by Transmission Corporation of Andhra Pradesh Limited (APTRANSCO) and West Bengal Transmission System Project (II), being implemented by and the West Bengal State Electricity Board (WBSEB) amounting to 9,527 million yen (6,400 million yen and 3,127 million yen, respectively) in Tokyo. The signing took place between H.E. Aftab Seth, Ambassador Extraordinary and Plenipotentiary of India to Japan, on behalf of the Government of India and Deputy Governor and Managing Director Koji Tanami on behalf of JBIC.

1. Loan Amount and Terms

Project Name	Amount (Mil. Yen)	Interest Rate (% per annum)	Repayment Period /Grace Period (Year)	Tying Status
Simhadri and Vizag Transmission System Project (II)	6,400	1.8	30/10	General Untied
West Bengal Transmission System Project (II)	3,127	1.8	30/10	General Untied
Total	9,527			

2. Outline of India's Political and Economic Situation

(1) Political Situation

As a result of India's general election in October 1999, the Bharatiya Janata Party (BJP: the Indian People's Party) maintained its position as the leading party. The National Democratic Alliance (NDA) coalition government is composed of more than 20 parties and led by Prime Minister Shri A.B. Vajpayee. The government is expected to promote a market-oriented economy through economic liberalization and deregulation.

After India conducted two underground nuclear tests in May 1998, it was subjected to economic sanctions imposed by the international community. Japan also took economic measures against the country, in consideration of the principles of Japan's ODA Charter. Since the terrorist attacks of September 11, 2001, however, Japan highly valued India's efforts to contribute to strengthening the international coalition against terrorism, and the Chief Cabinet Secretary published an announcement to discontinue the economic measures on October 26, 2001.

India has traditionally maintained friendly relations with Japan. When Japanese Prime Minister Yoshiro Mori visited India in August 2000, the two countries agreed to forge a "Global Partnership between Japan and India in the 21st Century." Its purpose is to establish dialogue and cooperation in various areas, including politics, security, economics, culture, and the resolution of global problems in the 21st century. In September 2000, the Japanese Government announced the "Japan-India IT Promotion and Cooperation Initiative". In December 2001, when Prime Minister Vajpayee visited Japan, the "Japan-India Joint Declaration" was announced.

This year (2002) marks 50-year anniversary of the establishment of diplomatic ties between Japan and India, and a number of commemorative events have been planned.

(2) Economic Conditions

Structural reforms, including economic liberalization and deregulation, have enabled India to maintain a favorable economic performance. For three consecutive years in the mid-1990s, India's economy achieved real annual gross domestic product (GDP) growth rates exceeding 7%. The economy then slowed down for a while, but experienced a real annual GDP growth rate of 6.8% in fiscal 1998 (April 1998 to March 1999) and 6.4% in fiscal 1999. Then the real annual GDP growth rate slowed again to 5.2% (provisional figure) in fiscal 2000 due to excessive capacity expansion in plant and equipment in the high economic growth period, as well as to the winding down of the manufacturing sector, mainly in capital goods. Nonetheless, a 6% growth is projected for this fiscal year, helped by the production of the agricultural sector that was boosted by a good rainfall during the monsoon season.

One major problem facing the national economy is the fiscal deficits of the central and state governments, which together account for more than 10% of GDP. To resolve this problem, a number of measures are required, including reassessment of various subsidy policies, the privatization of public enterprises, and the promotion of private investment in infrastructure development.

3. Project Outline

(1) Simhadri and Vizag Transmission Project (II)

(a) Background and Necessity of the Project

Andhra Pradesh is a state that is promoting economic reforms the most enthusiastically among the Indian states. The area around Hyderabad, the state capital, has recently caught the attention of foreign companies as a promising location. However, a severe power shortage continues due to structural problems in the power sector, with the supply-demand gap creating a bottleneck to economic growth. In fiscal 2000, the power supply was 11.3% short of demand during the peak hours. The high 34% power loss during transmission and distribution has been a problem in power supply. This rate is higher than in other states and the national average of 26%. One of the problems is lagging development of a dual 400 kV transmission network, which would serve as the major power grid in the state. To deal with this problem, construction work is currently underway on two coal-fired thermal plants at Simhadri (1,000 MW) and Vizag (1,040 MW) in the vicinity of Vishakhapatnam District, the industrial region in the state. To keep up with construction work on the new power plants, there is an urgent need to install additional high voltage major transmission lines and build new substations to bring power output to Hyderabad, a major center of power demand, and other areas.

(b) Objectives and Description of the Project

The Simhadri and Vizag Transmission System Project consists of installation of main transmission lines and construction of substations in the area that includes the 600 kilometer stretch between Vishakhapatnam and Hyderabad. The increase in power supply with this project is expected to boost industrial activity, thereby expanding employment, and increasing electrification in rural areas. This will spread household use of electric power, thereby improving the standard of living of local populations. In December 1997 JBIC made a commitment in the amount of 10,629 million yen for the first phase of this project. In addition, JBIC made commitments totaling 59,484 million yen to the related Simhadri Thermal Power Station Project in February 1997, March 2001 and February 2002. The project executing agency is Transmission Corporation of Andhra Pradesh Limited (APTRANSCO). (Address: Vidyut Soudha, Hyderabad 500 082, Andhra Pradesh, India; Phone: +91-40-339-6000; Fax: +91-40-666-5133)

(2) West Bengal Transmission System Project (II)

(a) Background and Necessity of the Project

West Bengal is a major state in eastern India, encompassing Calcutta, the country's third largest city, which has become an expanding industrial base in recent years. This led to a 7.3% annual growth in power demand from 1994 to 1998 and a projection of a robust 6.5% annual growth from 1999 to 2012. The state is also facing a substantial 36% transmission and distribution loss due to inadequate meter reading, low rate of tariff collection and pilferage. To deal with this situation, the state intends to reduce transmission and distribution loss to 20% by 2005 and eliminate the supply-demand gap by 2007. Therefore, there is urgent need to strengthen and expand the present transmission and distribution network in time for the completion of the power plants currently under construction or being planned to ensure a stable delivery of increased output to high demand locations.

(b) Objectives and Description of the Project

The purpose of the West Bengal Transmission System Project is to expand power transmission capacity and reduce power loss in West Bengal by strengthening and expanding its transmission and distribution system. The increase in power supply with this project is expected to boost industrial activity, thereby expanding employment and electrification in rural areas. This will spread household use of electric power, thereby improving the standard of living of local populations. To date JBIC has made a loan commitment in the amount of 11,087 million yen for the first phase of this project. The current loan will be applied to the second phase. The project executing agency is West Bengal State Electricity Board (WBSEB). (Address: Vidyut Bhavan (ground floor), Salt Lake, Kolkata 700 091, India; Phone: +91-33-358-9346/ +91-33-359-1952; Fax: +91-33-359-1952/ +91-33-359-1954)

