

## **JBIC Provides ODA Loan to Pakistan --To Support the Country's First Major Tunnel Project--**

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1. Japan Bank for International Cooperation (JBIC; Governor: Kyosuke Shinozawa) has decided to extend an ODA loan totaling up to 4,032 million yen to the Islamic Republic of Pakistan for the Kohat Tunnel Construction Project (II) which will be implemented by the National Highway Authority (NHA), and signed today at its head office an ODA loan agreement. JBIC provided the loan for Phase I of the project in November 1994. The present loan covers Phase II of the project, and its proceeds will finance civil work and procurement of materials and services necessary for construction of Pakistan's first modern, full-fledged tunnel (length: 1,885m) and an approach road (length: 28.17km).
2. Since May 1998, when Pakistan conducted an underground nuclear test, Japan has suspended ODA loans in adherence to the principles expounded in the ODA Charter. Projects already underway, however, are exempted from suspension and are dealt with on a case-by-case basis. Since the loan for Phase I was provided in November 1994 (up to 5,437 million yen), extension of the present loan was approved as follow-up of the project already underway.
3. Roads are the most important mode of transportation in Pakistan, but road density in the country is still lower than that of neighboring India and Sri Lanka, with Pakistan at 0.26km/km<sup>2</sup> and India and Sri Lanka at 0.49km/km<sup>2</sup> and 0.48km/km<sup>2</sup> respectively, as of March 2000. Furthermore, Pakistan's road networks have developed mainly in the eastern bank region of the Indus around National Highway No. 5, which has been a contributing factor to the lagging development in the western bank area, especially the remote areas of the northwest. JBIC has supported the Pakistan's road sector to date by extending, among others, several ODA loans for the construction of "the Indus Highway (National Highway 55)" that stretches along the west bank of the Indus. The present project is also aimed at updating part of the Indus Highway.
4. The loan will help provide an alternative route to the steep Kohat pass, situated between Peshawar and Kohat, and currently posing impediments to the Indus Highway, thereby alleviating traffic congestions, ensuring traffic safety, and reducing mileage and travel time. The loan is thus expected to enhance the transportation function of the Indus Highway as a trunk road and contribute to balanced economic development in Pakistan.

(See Appendix for details.)

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Project Name	Loan Amount (Mil. Yen)	Interest Rate (% per annum)	Repayment Period/ Grace Period (Year)	Procurement
Kohat Tunnel Construction Project (II)	4,032	1.8	30/10	General Untied

### 1. Political and Economic Situation in the Islamic Republic of Pakistan

#### (1) Political Situation

Since independence in 1947, Pakistan has followed a repeated pattern of confused civilian politics, the change of government through elections and the emergence of a military regime without a stable democracy taking root. Equally troubling throughout the years have been its relations with neighboring countries: in particular, conflicts with India over Kashmir and a tightening relationship with Afghanistan.

In May 1998, in response to the Indian testing of nuclear weapons, Pakistan conducted an underground nuclear test of its own whereupon the international community imposed economic sanctions against the country. Japan, for its part, resorted to the suspension of new grant aid (other than emergency and humanitarian aid as well as grassroots provision of assistance) and ODA loans in adherence to the principles expounded in the ODA Charter. However, projects already underway were dealt with on a case-by-case basis. Thus the present loan is exempted from suspension.

In October 1999, the army chief of staff, Gen. Pervez Musharraf took power in a military and issued the interim constitutional order, suspending the constitution and parliament. He also assumed the post of the then Prime Minister Mohammad N. Sharif as the Chief Executive. Gen. Musharraf voiced his commitment to anti-corruption efforts and economic reform, and subsequently international organizations such as the IMF have provided financial support for the country. At the Pakistan Development Forum held last March in Islamabad, the donor countries expressed their support for the reform policies of the Musharraf government, which thereby won favorable recognition from the international community. The Musharraf government also followed the Supreme Court ruling in May 2000 and is moving to hold general elections for the Senate, and National Assembly as well as provincial legislatures by October 2002.

Gen. Musharraf assumed the office of President in June this year, replacing President Mohammad R. Tarar, after dissolving the National Assembly and four provincial legislatures.

#### (2) Economic Situation

Since agriculture and the processing of agricultural products account for about 30% of GDP in Pakistan, its economy depends to a considerable extent on the output of agricultural produce, including cotton and wheat, and related products such as cotton textiles. This is a source of vulnerability for the economy. GDP grew 4.8% in fiscal 1999/00 (July 1999 - June 2000) favored by bumper cotton crops. In fiscal 2000/01, however, growth slowed to 2.6% due to poor agriculture output caused by a drought or others.

The government faces fiscal problems, including a small tax base due to no tax levy in the agricultural sector and tax evasion, and the pressure of debt service on fiscal expenditures. Thus, large fiscal deficits are posing a major problem with their ratio to GDP hovering around 6-7% throughout the 1990s. Therefore, the Musharraf government is expanding the tax base and cracking down tax evasion to increase revenues, while cutting down fiscal deficits to reduce them to sustainable levels. In fiscal 2000/01 (July 2000 - June 2001) the ratio of fiscal deficit to GDP improved to 5.3%. The government is aiming to achieve a sustainable GDP growth of 5.5% until fiscal 2003/04 and the 6% range thereafter through accelerating privatization and more efficient public investment.

### 2. Description of the Project

#### Kohat Tunnel Construction Project (II)

##### (1) Background and Necessity of the Project

Roads are the most important mode of transportation in Pakistan, but road density in the country is still lower than that of neighboring India and Sri Lanka, with Pakistan at 0.26km/km<sup>2</sup> and India and Sri Lanka at 0.49km/km<sup>2</sup> and 0.48km/km<sup>2</sup> respectively (as of March 2000). Furthermore, Pakistan's road networks have been developed mainly in the eastern bank region of the Indus around National Highway No. 5, which has been a contributing factor to the lagging development in the western bank area, especially the remote areas in the northwest. Since 1989, JBIC has extended ODA loans totaling 47,508 million yen to the Indus Highway Project (I), (II), (IIB) to construct the Indus Highway (National Highway 55) that connects Karachi and Peshawar on the western bank of the Indus. However, the section of the highway around the Kohat pass is yet to be repaired because the steep terrain has made it difficult to widen and improve the road. This section crosses the Khigana Mountain (altitude 1,100m) situated between Peshawar and Kohat located 65km south of Peshawar.

Steep terrain (maximum ascent of 8%) and sharp curves (minimum radius of 12m) continue for 9.2km on the current road around the Kohat pass. In addition, large vehicles must make a long detour since the road is too narrow (6m) to travel. Vehicles that are able to take the route must travel at slow speed, and there are also safety issues because there are not adequate guardrails in place on the road that runs along precipitous cliffs.

The section around the Kohat pass has become a bottleneck for the Indus Highway to function as a trunk road, and since it poses an impediment to economic development in the remote northwest areas, road improvement is an urgent priority.

##### (2) Objective and Brief Description of the Project

The project will construct a new tunnel (length: 1,885m, width: 7.3m) and an approach road (length: 28.17km, width: 7.3m) as an alternative route to the Kohat pass, situated between Peshawar and Kohat in the remote northwest area of Pakistan. The project will allow the passage of large vehicles, alleviate traffic congestion, ensure traffic safety, and reduce mileage and travel time. The project will thus enhance the transportation function of the Indus Highway as a trunk road and promote economic development in the west bank region of the Indus.

In November 1994, JBIC agreed to extend 5,437 million yen for Phase I of the project. The present loan is applied to Phase II.

The executing agency is the National Highway Authority (NHA) (Address: 27 Mauve Area, G-9/1, Islamabad, Pakistan; Tel: +92-51-9261132; Fax: +92-51-9260414).