

An ODA Loan to Uzbekistan

--Supporting Economic Development in Central Asia by Financing the Construction of New Railway Line--

1. Japan Bank for International Cooperation (JBIC; Governor: Kyosuke Shinozawa) signed today a loan agreement totaling up to 16,359 million yen with the Government of the Republic of Uzbekistan for the Tashguzar-Kumkurgan New Railway Construction Project.
2. The loan will finance the construction of a new railway line (222 km) between Tashguzar and Kumkurgan as well as the rehabilitation of the existing line (31 km), in southern Uzbekistan, a land-locked country where the railway service plays an important role in transportation. Specifically, the proceeds of the loan will be used for the construction of bridges, signal and communication facilities, and procurement of equipment for construction and maintenance of tracks.
3. The railway network in Uzbekistan was constructed in the former Soviet era, with Moscow serving as its hub. Thus some of the country's trunk lines connecting various domestic locations have to pass through neighboring countries such as Turkmenistan on their routes. The Tashguzar-Kumkurgan line targeted by this ODA loan-financed project currently runs on a roundabout route: from southern Uzbekistan to Turkmenistan across the border and then back to Uzbekistan. This has caused problems in transport service, as delays are almost routine occurrence because of time-consuming customs procedures, change of locomotives and uncoupling of cars at the frontier stations. Furthermore, the rail transport route to Afghanistan via this line has gained importance in recent years in the face of growing demand for humanitarian aid and reconstruction work in Afghanistan. Therefore, resolving such problems has become an urgent agenda.
4. Under these circumstances, the construction of the shortcut without going into Turkmenistan will help reduce transport costs for the line connecting Uzbekistan and neighboring areas; save time by cutting short transport distance and eliminating procedures for crossing national borders; meet increased transport volume; and ensure reliable transport services. In addition, STEP [1] is applied to this Project, since Japan's advanced technology and knowhow will be provided for constructing the bridges.
5. As is the case with other Central Asian countries, Uzbekistan's economic and social infrastructure, mostly built during the former Soviet era, has been suffering from a great deal of deterioration. Rehabilitating and updating such infrastructure is an important issue on the country's development agenda. JBIC has thus supported transport, telecommunications and other economic and social infrastructure development by financing expansion and updating of railway lines, airports and regional telecommunication networks to help its stable economic and social development. This ODA loan constitutes part of such efforts.

(See Appendix)

[1] Special Terms for Economic Partnership (STEP), set in March 2002 for ODA loans, have been applied to eligible projects since July 2002. STEP aims at promoting development assistance with a distinct Japanese profile through technology transfers to developing countries by drawing on advanced Japanese technologies and knowhow. This enables JBIC to apply more favorable loan terms than in ordinary ODA loans.

1. Loan Amount and Conditions

Project Name	Amount (mil. yen)	Interest Rate (% per annum)	Repayment Period/Grace Period (years)	Procurement
Tashguzar-Kumkurgan New Railway Construction Project	16,359	0.40*	40/10	Tied

* STEP is applied.

2. Republic of Uzbekistan

The Republic of Uzbekistan is one of the five Central Asian countries that achieved independence from the former Soviet Union in 1991. It is the most populous country in Central Asia. In addition to producing abundant cotton and gold, the country is endowed with such natural resources as petroleum and natural gas. Politically, Uzbekistan has been enjoying stability under the strong leadership of President Karimov, the first president of the Republic, who was re-elected after garnering 92% of the votes in the presidential election held in January, 2000, and obtained the extension of his presidential term from 5 to 7 years in the national referendum in January 2002.

The Republic of Uzbekistan has adopted a policy of gradual transition from planned economy to market economy. After its economy turned around and posted positive real GDP growth in 1996 for the first time since independence, the country has continued to register positive growth to date. In October 2003, the government abolished the long-pending multiple exchange rate system and accepted IMF's Article VIII obligations. The country is thus forging ahead with economic reforms toward a market economy.

2. Project Description

Tashguzar-Kumkurgan New Railway Construction Project

(i) Background and necessity of the project

The Central Asian region, including the Republic of Uzbekistan, occupies a strategically important location, providing east-west linkage between Asia and Europe in the Eurasian continent and bordering with Russia in the north and Afghanistan in the south. In particular, Uzbekistan is a major regional power, with its largest population in the region, its borders directly shared with Afghanistan in the south and its location at the intersection of east-west and north-south transport routes. Therefore, the stability of this country has significant implications not only for the Central Asian region but also for the international community, including Japan.

The Project consists of constructing a new railway line stretching 222 kilometers from Tashguzar, Kashkadarya Oblast, to Kumkurgan, Surkhandarya Oblast, and rehabilitating the existing 31-kilometer section from Karshi to Tashguzar.

The railway network in Uzbekistan was constructed in the former Soviet era, with Moscow serving as its hub. Thus some of the country's trunk lines connecting various domestic locations have to pass through neighboring countries such as Turkmenistan on their routes. The Tashguzar-Kumkurgan line targeted by this ODA loan-financed project currently runs on a roundabout route: from Karshi in southern Uzbekistan, via Talimardjan, to Turkmenistan across the border and then back to Boldir and Termez in Uzbekistan. This has caused problems in transport service, as delays are almost routine occurrence because of time-consuming customs procedures, change of locomotives and uncoupling of rail cars at the frontier stations. In addition, since the railway companies in Uzbekistan and Turkmenistan are separately providing transport services in their own countries, it is difficult to respond flexibly to changes in demand.

Tajikistan will also benefit from this line, as the only rail link connecting Dushanbe, its capital, and Hojent, the country's second largest city in the north, will be cut short. This rail route is indispensable for and rail cargo being shipped from and to Dushanbe for exports and imports. Furthermore, the rail transport route to Afghanistan via Termez has gained importance in recent years in the face of growing demand for humanitarian aid and reconstruction work in Afghanistan.

Under these circumstances, there is a need to build a rail route that connects these cities in the shortest distance without passing through Turkmenistan, as well as increase transport capacity and reliability.

The Project aims at reducing transport costs; cutting short transport distance and time; meeting increased transport volume; and ensuring reliable services by constructing a new railway line stretching 222 kilometers and rehabilitating the existing 31-kilometer section as an alternative route to the existing one that runs by way of Turkmenistan.

(ii) Purpose and description of the project

The purpose of the Project is to reduce transport costs; cut short transport distance and time; increase transport capacity and ensure reliability of services by constructing a new line and rehabilitating the existing line for the rail route in southern Uzbekistan that currently runs by way of Turkmenistan. This will help promote economic and social development in the country's southern provinces of Kashkadarya Oblast and Surkhandarya Oblast.

The ODA loan will finance the construction of bridges, signal and communication facilities, and procurement of equipment for construction and maintenance of tracks in the following sections. Steel bridges capable of long span will be constructed by employing Japanese technology.

- Construction of a new Total 222 km line

A section: Tashguzar– 57 km
Dekhanabad

B section: 109 km
Dekhanabad–Baisun

C section: Baisun– 56 km
Kumkurgan

- Rehabilitation of the 31 km
existing line: Karshi–
Tashguzar (non-
electrified, single track
rail)

The project executor is State Joint Stock Company Uzbekistan Temir Yullari (address: 7, T. Shevchenko St., Tashkent, 700060, Republic of Uzbekistan, Tel: 998-71-138-8003, Fax: 998-71-133-4187).