

## **JBIC Signs ODA Loan Agreements with Cambodia and Lao PDR: Supporting Telecommunications and Power Infrastructure Development for Improving Investment Climate in the Mekong Subregion**

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1. Japan Bank for International Cooperation (JBIC; Governor: Kyosuke Shinozawa) signed two ODA loan agreements respectively - a 3.029 billion yen loan agreement with the Government of the Kingdom of Cambodia on March 25 and a 3.326 billion yen loan agreement with the Government of Lao People's Democratic Republic (Lao PDR) on March 28.
2. The loan for Cambodia will finance the Greater Mekong Telecommunication Backbone Network Project (Cambodia Growth Corridor), which consists of civil works and consulting services for laying optical cables that extend a total of about 400 kilometers in the country's central region, including Phnom Penh, the capital. The loan for Lao PDR will finance the Greater Mekong Power Network Development Project (Lao PDR), which consists of civil works and consulting services for constructing a dual 115-kV power transmission network extending about 300 kilometers and upgrading substations in the country's central region.
3. While Cambodia and Lao PDR, which constitute a part of the Greater Mekong Subregion,[1] have both achieved political stability and economic growth in recent years, there still remains substantial economic disparities in terms of income and standards of living, between them and the original ASEAN member countries (such as Thailand and Malaysia). Thus, their challenge is to advance development in the Greater Mekong Subregion as an integrated region. If the two countries are to sustain stable economic growth in the coming years, it is crucial that they promote foreign private investment through an improved investment climate, including infrastructure development, and further invigorate their economies by acquiring the means to earn foreign currencies. These ODA loans aim to improve the climate for facilitating private economic activities, including foreign direct investment, by developing telecommunication and power transmission infrastructure respectively.
4. Japan has been increasingly involved in the Greater Mekong Subregion in consideration of its importance. At the Japan-ASEAN Special Summit in December 2003, the Government of Japan announced an assistance of US\$1.5 billion for the development of the Greater Mekong Subregion, and during the ASEAN + 3 Summit in November 2004, Prime Minister Koizumi expressed to the leaders of Cambodia and Lao PDR an intention to provide ODA loans for the Greater Mekong Subregion. The signing of the two ODA loan agreements at this occasion was an outgrowth of these developments. Vigorous private-sector economic activities are essential for the economic development of the two countries. As the only official financial institution responsible for implementing Japanese external economic policy, JBIC will continue to make multi-faceted efforts to promote trade and investment for the two countries, which include not only support for improving the investment climate but also policy recommendations, as provided in December 2004 for improving the climate for direct investment.

[\(Click here for details\)](#)

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[1] The Greater Mekong Subregion (consisting of Cambodia, Lao PDR, Myanmar, Vietnam, Thailand and Province of Yunnan, China) is the area along the course of the Mekong River that runs through Indochina from north to south. It stretches 2.3 million square kilometers (about six times larger than the land area of Japan), with a population of 250 million (twice more populous than Japan). With the exception of China and Thailand, the Greater Mekong Subregion countries acceded to ASEAN in the latter half of the 1990s (Thailand joined the establishment of ASEAN in 1967).

## Reference

### 1. Loan Amount and Terms

Project Name	Amount (Mil. Yen)	Interest Rate (% per annum)	Repayment Period/Grace Period (Year)	Conditions for Procurement
Greater Mekong Telecommunication Backbone Network Project (Cambodia Growth Corridor)	3,029	0.9	30/10	Untied
Greater Mekong Power Network Development Project (Lao PDR)	3,326	0.9	30/10	Untied

### 2. Project Description

#### (1) Greater Mekong Telecommunication Backbone Network Project (Cambodia Growth Corridor)

##### (Political and Economic Profile of Cambodia)

Located along the lower Mekong River, Cambodia has a population of some 13.5 million. After years of turmoil, the 1991 Paris Peace Accords paved the way for the establishment of the Royal Government of Cambodia in 1993. Following the factional armed fighting in 1997, Prime Minister Hun Sen formed a new government in 1998, which has since taken steady steps toward the transition to democracy, bringing about stable political and economic conditions. As a result, Cambodia formally acceded to the Association of Southeast Asian Nations (ASEAN) in April 1999 and to the World Trade Organization (WTO) in October 2004. The country has thus steadily returned to the international community.

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

Telephone prevalence ratio in Cambodia is 2.66 subscribers per 100 residents (2002), which is lower than those in neighboring countries (54.67 subscribers in Malaysia, 35.91 in Thailand and 9.19 in Vietnam). In the meantime, the number of telephone subscribers in Cambodia has been growing by 9% annually from 1998 through 2002, and the prevalence ratio is forecasted to increase up to 5.3 subscribers per 100 residents by 2010.

The central region of Cambodia, which extends from Kampong Cham, the distribution hub of farming products, to the capital Phnom Penh, and further to Sihanoukville Port, the country's only sea port, is the center of Cambodian economic activity and home to 45% of the total population. In this region, which is dubbed the Growth Corridor, the Sihanoukville port facilities are expanding (for which JBIC has provided ODA loans), and plans for an industrial park is underway. With the economy registering a 15% annual growth, mainly on the strength of the manufacturing sector, demand for telecommunications in this region is expected to increase rapidly. Communication among cities in the Growth Corridor relies on microwave networks installed by mobile-phone providers; however, this makes it difficult to exchange a large volume of information in a stable manner. Thus, the underdeveloped telecommunication network is emerging as a major bottleneck for the region to invite and foster industries, including foreign companies. The development of a basic telecommunication network is urgently called for to meet the rapidly growing communication demands and business needs in the Growth Corridor.

##### (Purpose and Overview of the Project)

The purpose of the Project is to increase telecommunication capacity and improve the reliability of communication facilities in the Growth Corridor, which encompasses Sihanoukville, Phnom Penh and Kampong Cham in Cambodia, by laying down a 400 kilometer-long optical cable and installing related facilities and equipment in the region, thereby contributing to the economic and social development of the region. The proceeds of this loan will be applied to the procurement of machinery and equipment necessary for installing an optical cable and other related facilities such as switchboards and access cables, as well as civil works and consulting services. In addition, the Government of Cambodia and JBIC have previously agreed on the implementation plan that will reform the telecommunication sector, with an emphasis on the effective development and operation of the telecommunication infrastructure. JBIC will confirm and support the progress of this implementation plan through the project, in partnership with the Asian Development Bank (ADB). Meanwhile, the optical cable installed under this project will be linked to the existing cable connecting Vietnam and Thailand, and will thus form part of the backbone network of the Greater Mekong Subregion.

The Project's executing agency is the Ministry of Posts and Telecommunications (address: CNR of St. 13 & 102, Wat Phnom, Phnom Penh 12202, Tel: 855-023-426-832; Fax: 855-023-725-411).

#### (2) Greater Mekong Power Network Development Project (Lao PDR)

##### (Political and Economic Profile of Lao PDR)

Lao PDR is a landlocked country located midstream along the Mekong River, with a population of 5.5 million. Since its establishment in 1975, Lao PDR has been controlled by the Lao People's Revolutionary Party. Declaring the "new idea and new system" in 1986, the government adopted the political and economic reform policy. It is now carrying out reforms under the "New Economic Mechanism" by formulating a foreign investment law and others in a bid to transform the economy into a market-oriented one.

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

One of the issues that the government of Lao PDR has given priority to is to increase the household electrification rate from the current 34% up to 90% by 2020. Demand for power increased nationwide by an average annual rate of 13% over the 1995-2002 period, and is expected to continue growing by 10% yearly to 2020, according to Électricité du Laos. An even stronger power demand is projected for the south-central region, since the Mekong East-West Economic Corridor, which cuts east-west across Indochina from Vietnam to Myanmar, will go through this region and stimulate the development of mining, irrigation and other industries. Thus, power demand in the south-central region is projected to grow by 13% up to 2020.

At present, power generation in Lao PDR consists of four mutually-independent power transmission systems. In the north-central power system, whose primary user is the capital Vientiane, electricity is produced at the ODA-financed Nam Ngum and Nam Leuk dams, and surplus power is sold to neighboring Thailand. On the other hand, in the south-central system, where the Mekong East-West Economic Corridor is located, there is no generation facility. Electricity is imported from northeastern Thailand to meet domestic power demand. The cost to import electricity from Thailand, however, has surpassed the revenue from exporting power to its neighbor, making this arrangement quite inefficient for Lao PDR. In addition, the power supply-demand relation is increasingly tightening in northeastern Thailand, from which electricity is exported to the south-central system. Against this background, the development of transmission lines providing linkage to the north-central region is urgently called for to cut back on foreign currency expenditures, and to realize a stable power supply in the south-central region as well as to upgrade electrification rates in Lao PDR.

##### (Purpose and Overview of the Project)

The purpose of the Project is to meet the growing power demand in the south-central region, including the East-West Economic Corridor, by constructing and enhancing 115kV-transmission lines and substations in the 300 kilometer-section between Pakxan, on the outskirts of the capital Vientiane in northern central Lao PDR, and Savannakhet in southern central Lao PDR, thereby contributing to the upgrading of electrification rates, industrial development and poverty reduction. Transmission and substation facilities will be constructed and operated in compliance with the Electric Power Technical Standard, for which Japan International Cooperation Agency (JICA) provided project type technical cooperation in support of its preparation. Under the project, JBIC will, in partnership with the World Bank, help accelerate Électricité du Laos's efforts to improve its financial status by resolving an overdue power tariff payment owed by government agencies, and by establishing an appropriate electric tariff system. The proceeds of this loan will be applied to the procurement of civil works and equipment necessary for constructing transmission and substation facilities, as well as consulting services.

Project executing agency is Électricité du Laos (address: Nongbone Road, P.B. 309, Vientiane, Lao PDR; Tel: 856-21-451519; Fax: 856-21-416381).