

JBIC Signs ODA Loan Agreement with Azerbaijan Government: Supporting Construction of Gas Combined-Cycle Power Plant Will Serve to Strengthen the Base of Economic Development

1. Japan Bank for International Cooperation (JBIC; Governor: Kyosuke Shinozawa) signed today an ODA loan agreement totaling up to 29.28 billion yen with the Government of the Republic of Azerbaijan to finance "the Shimal Gas Combined-Cycle Power Plant Construction Project (Second Unit)" in Baku, the country's capital.
2. Under the Project, a gas combined-cycle power plant (one 400 MW unit) will be constructed in the Shimal thermal power station located near Baku. The proceeds of the loan will be used for procurement of materials and equipment in constructing the plant and related transmission and substation facilities, construction and civil works, and consulting services. When completed, the Project is expected to increase the country's power supply capacity, thereby contributing to alleviating power shortages and developing infrastructure for economic development.
3. Azerbaijan, which gained independence from the Soviet Union in 1991, has achieved an almost 10 percent annual growth in recent years, driven by oil and natural gas development. It is foreseen that expanding oil production will lead to further growth in the years to come. Meanwhile, a number of domestic power stations that were built during the Soviet era have been operating for more than 30 years, and their antiquated facilities have significantly lowered the capacity and reliability of power supplies. Thus, even though the overall rated installed power capacity of the country's power facilities totaled 5,556 MW in 2003, the actual available power supply remained 4,240 MW, which is unable to meet the current peak demand of 4,500 MW. Given the prospect of increasing power demand in parallel with vigorous economic growth (as attested by the annual average 6.5 percent growth of power demand from 2000 to 2003), and considering the need for additional reserve margin, strengthening power supply capacity in the shortest period of time is an urgent challenge facing Azerbaijan. The priority of this Project, which will strengthen the capacity of a power station near the capital city of Baku, is particularly high. This is because of the following reason: whereas about 60 percent of the country's power demand comes from Apsheron Peninsula, including Baku, in the eastern region, which is the country's industrial heartland and where the population is concentrated, about 80 percent of the existing power generation facilities are located in the western region.
4. Azerbaijan has been focusing its effort on developing offshore oil and natural gas fields in the Caspian Sea. And Japanese firms have participated, on their own, in the development of ACG oil fields, which constitutes part of this overall effort. JBIC, in its part, has also financed not only their development but also the construction of the pipelines necessary for transporting crude oil produced there. Apart from this Project, JBIC has also supported to date the construction of a gas combined-cycle power plant with ODA loans. These power plants will utilize the natural gas produced in these fields. In this way, JBIC has been supporting energy supplies in Azerbaijan by making comprehensive use of its various lending facilities.

(Click here for details.)

1. Loan Amount and Terms

Project Name	Amount (Mil. Yen)	Interest Rate (% per annum)	Repayment Period/ Grace Period(Years)	Procurement
Shimal Gas Combined-Cycle Power Plant Construction Project (Second Unit)	29,280	0.75*	40/10	General Untied

* In Overseas Economic Cooperation Operations, JBIC supports developing countries' efforts to address environmental issues by setting lower interest rates for environmental projects.

2. Project Executing Agency

Joint-Stock Company "Azerenerji"

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3. Political and Economic Conditions of the Republic of Azerbaijan

The Republic of Azerbaijan, which gained independence from the Soviet Union in August 1991, is located on the coast of the Caspian Sea in the Caucasus region. It has a land area about a quarter of Japan and a population of 8.2 million (in 2003). In the elections held in October 2003, following the deteriorating health of then president Heydar Aliyev, Ilham Aliyev, his son, was elected as the new president and assumed office, succeeding his father. The general election in the unicameral National Assembly is scheduled for November, but many observers predict that the ruling New Azerbaijan Party will continue its majority rule, which assures the stability of the government.

Azerbaijan is abundantly endowed with natural resources, including oil and natural gas. Driven by the production of these energy sources, its economy has grown at an annual rate of almost 10 percent in recent years. The start of broad-scale oil production in the Caspian Sea and the completion of the BTC pipeline are expected to bring a further boost to economic growth.[1] Meanwhile, broadening its economic base through diversification of its industrial structure as well as increasing employment remains on the country's agenda.

[1] The BTC pipeline is a 1,750-kilometer pipeline from Baku in Azerbaijan to Turkey through neighboring Georgia. This project will be operated by an international consortium composed of 11 companies from 8 countries, including Japan and the United Kingdom. JBIC provided financing for this project (about USD 500million in February 2004).