

JBIC Resumes ODA Loans to the Islamic Republic of Pakistan

--New ODA Loans Support Poverty Reduction and Economic Growth--

1. Japan Bank for International Cooperation (JBIC; Governor: Kyosuke Shinozawa) signed today two loan agreements totaling 16,362 million yen with the Government of the Islamic Republic of Pakistan for "the Lower Chenab Canal System Rehabilitation Project" and "the Load Dispatch System Upgrade Project".
2. New ODA loans to Pakistan were suspended after it conducted a nuclear test in 1998. On April 30, 2005, when Prime Minister Koizumi paid an official visit to Pakistan, he indicated that Japan would resume ODA loans to the country in view of the vital role Pakistan has in the fight against terrorism. In the wake of his statement, JBIC resumed ODA loans.
3. While Pakistan has enjoyed robust economic growth in recent years (8.4% in FY2004), its per capita gross national income (GNI) remained at a low US\$470 in 2003, with the country classified as a low income country by the World Bank. President Musharraf pointed out that poverty is the root cause of terrorism. The Pakistani Government has therefore drafted a 10-year plan and Poverty Reduction Strategy Paper (PRSP)[1] to achieve the UN Millennium Development Goals and is making efforts to accelerate growth and reduce poverty. In line with this government policy, the new ODA loans respectively aim to reduce poverty by supporting the agriculture sector, the largest underdeveloped industry in Pakistan, and secure a stable power supply by modernizing the power sector that provides the underpinnings of industrial development, thereby contributing to economic growth.
4. Highlights of the ODA loans are as follows:
 - (1) Supporting poverty reduction through the expansion of agricultural production
Agriculture is the largest industry in Pakistan. As 80% of the total agricultural output comes from irrigation farming, JBIC is supporting the Lower Chenab Canal System Rehabilitation Project. This Project aims to boost farming production not only by remodeling and rehabilitating irrigation systems, but also by ensuring fair and effective water distribution to farmers as well as operation and management, thereby contributing to poverty reduction and regional economic development, the country's two major challenges.
 - (2) Supporting economic growth through a stable power supply
JBIC places priority on extending assistance to the areas contributing to well-balanced regional and economic development in Pakistan. Under the Load Dispatch System Upgrade Project, the National Power Control Center, which is responsible for controlling the power supply of Pakistan (excluding Karachi), and related facilities will be upgraded. The Project aims to achieve a stable power grid system in Pakistan, a system often plagued by extensive power outages, and thereby help lay down the foundation for economic growth.

(Click here for more details of the projects)

[1] Poverty Reduction Strategy Paper (PRSP) describes a country's macroeconomic, structural and social policies and programs to promote growth and reduce poverty. PRSP is a poverty-focused development strategy prepared primarily by the government of a developing country through a participatory process involving civil society, including NGOs, and development partners, including donor agencies.

1. Loan Amount and Terms

Project Name	Amount (Mil. Yen)	Interest Rate (% per annum)	Repayment Period/ Grace Period(Years)	Procurement
Lower Chenab Canal System Rehabilitation Project	12,523	1.3	30/10	General Untied
Load Dispatch System Upgrade Project	3,839	1.3	30/10	General Untied
Total	16,362			

2. Project Description

(1) Lower Chenab Canal System Rehabilitation Project

The scope of the Project is to remodel and rehabilitate the existing irrigation canal systems and drainage systems of the Lower Chenab Canal System in central Punjab.

The Project also assists the empowerment of farmers' organizations to which responsibilities will be delegated for the operation and maintenance of the system. The Project thereby aims to boost agricultural production and increase the incomes of farmers in the target area, contributing to poverty reduction and regional economic development.

In Pakistan, agriculture has always been the pillar of the economy. In 2003, the agricultural sector accounted for 23.6% of the total GDP, 42% of employment and around half of total export revenues. It is thus the largest foreign currency earner and a key industry that supplies materials to major industries including the textile and sugar production industries. While 80% of agricultural activities use irrigation farming, agricultural productivity is low due to water shortage and ineffective use of water attributable to aged irrigation facilities. The Lower Chenab Canal System (LCC), the target area of the Project, has one of the oldest irrigation systems in Pakistan, as its development began in the days of the British colonial rule. It serves the largest area (1,240,000ha) in Punjab, the leading state of irrigation farming. However, as irrigated areas expand, the inadequate capacity of irrigation facilities has become apparent. In addition, eroded canals and aging facilities have hampered the efficient use of water and affected agricultural productivity. There is thus an urgent need for remodeling and rehabilitation of the existing facilities.

The executing agency is the Punjab Irrigation and Drainage Authority (Address: Irrigation and Power Department Building, Near Old Anarkali, Civil Secretariat, Government of Punjab, Lahore, Pakistan; Tel: 92-42-9212882; Fax: 92-42-9212881).

(2) Load Dispatch System Upgrade Project

The Project aims to increase the operational efficiency and stability of the power grid system by modernizing and expanding the National Power Control Center, which controls power generation to match supply with demand of the entire country (excluding Karachi), and related facilities. The Project will thereby help lay down the foundation for regional and economic development in Pakistan.

Pakistan has to meet rapidly increasing power demand brought about by economic growth. Many thermal power plants are located in central and southern Pakistan, while many hydro power plants are in the northern part of the country. As these power plants are far from major locations of demand, there is a need to manage a national power grid system consisting of an ultra-high voltage power transmission system of 500kV and 220kV for an efficient and stable power supply that matches supply with demand. This requires, aside from continued capital investment in the transmission system, the development of the power supply system centered on the National Power Control Center, which controls power generation to match supply with demand. Whereas the existing National Power Control Center is equipped with the power supply facilities capable of remote monitoring of the power grid system, it frequently faces communication failures and equipment breakdowns due to the rapidly expanding power system, limited supply capacity and aging facilities. The National Power Control Center is thus currently unable to monitor the entire power system around the clock. It thus continues to operate under the situation where, in the worst case, it could only receive one half of the information it should have on the status of supply and demand. Therefore, it is urgent that a stable power supply is ensured by drastically upgrading and expanding these facilities.

The executing agency is the National Transmission and Dispatch Company Ltd. (Address: WAPDA House, Lahore, Pakistan; Tel: 92-42-9202229; Fax: 92-42-9202053).