

## Signing of an ODA Loan Agreement with Paraguay in Support of "The Initiative for the Integration of Regional Infrastructure in South America"

### --Assisting Hydroelectric Power Generation with the Prospect of Acquiring CERs--

1. Japan Bank for International Cooperation (JBIC; Governor: Kyosuke Shinozawa) signed an ODA loan agreement today totaling 21,402 million yen for the Yguazu Hydropower Station Construction Project with the Republic of Paraguay.
2. The project is aimed at constructing a hydraulic power station (output: 200MW) which utilizes the existing Yguazu Reservoir (surface area: 620km<sup>2</sup>) as well as a sub station and distribution facilities to provide linkage between the power station and the power grid, thereby contributing to the stable supply of power in Paraguay. The loan will finance the construction of a hydroelectric power station, the installation of a distribution line, and the procurement of consulting services.
3. While the peak power demand in the country is 1,241MW (2004), Paraguay's own installed capacity hovers as low as 216MW. Paraguay thus has to purchase power from the Itaipu Hydropower Station (12,600MW), which the country developed jointly with Brazil, in order to meet over 80% of its power demand. Buying power could become relatively expensive when covering peak demand, however, since the power supply is contracted on a power output volume basis with the Itaipu Hydropower Station. In addition, the buying cost is exposed to high exchange risk as the contract denominated in the US dollar. The government of Paraguay is planning to meet peak demand by constructing its own domestic power station along with the related equipment, thereby reducing outlay for power buying and stabilizing the power supply.
4. In light of the fact that stabilizing the power supply in Paraguay will enable power interchange with neighboring countries and contribute to a stable power supply system across the region in the future, this project was recognized in a context "The Initiative for the Integration of Regional Infrastructure in South America."<sup>[1]</sup> This initiative is drawing attention in that it contributes to well-balanced growth throughout South America, as well as to increasing business opportunities in the region. This is the first ODA loan commitment that JBIC has made for this initiative.
5. Since the project uses water, a clean energy source, and helps reduce greenhouse gas emissions, it is expected that a Clean Development Mechanism (CDM),<sup>[2]</sup> one of the Kyoto Mechanisms, will be applied to the project. JBIC signed a cooperation agreement<sup>[3]</sup> with the Secretary of Environment (SEAM) of Paraguay, in order to promote the implementation of CDM projects in the Republic of Paraguay. Under this agreement, JBIC will conduct a study on possible applications of a CDM for this project as part of its effort to help acquire Certified Emission Reductions (CERs) through the provision of ODA loans.
6. Amid these developments JBIC, as the only official financial institution responsible for implementing Japan's external economic policy, has been making positive efforts to advance regional integration and the Kyoto Mechanisms, including this project. It has been doing this by making the utmost use of its long-cultivated ties with the governments of developing countries through loan and guarantee operations and its overseas network through the representative offices.

(Click here for the details)

[1] "Iniciativa para la Integración de la Infraestructura Regional Suramericana (IIRSA)," a plan to promote regional integration through strategic and systematic infrastructure development, was advocated by 12 South American countries and was referred to in "A Vision for a New Japan - Latin America and Caribbean Partnership" that Prime Minister Koizumi announced in September 2004.

[2] CDMs allow industrial countries to undertake joint projects with developing countries, and the investing country (industrial country) may use emissions reduction credits (called Certified Emission Reductions [CERs]) generated from such projects to meet its own GHG emissions reduction target.

[3] The agreement was signed with the Secretary of Environment (SEAM) of Paraguay on November 1, 2005.

## Reference

---

### 1. Loan Amount and Terms

Name of the Loan	Amount (Mil. Yen)	Interest Rate (% per annum)	Repayment Period/ Grace Period(Years)	Procurement
Yguazu Hydropower Station Construction Project	21,402	0.75	40/10	General Untied

### 2. Project Executing Agency

Administración Nacional de Electricidad (ANDE)  
Address: Avda. España 1268, Asunción, Paraguay  
Tel: 595-21-217-2945 Fax: 595-21-201-412

### 3. Political and Economic Conditions in Paraguay

Paraguay is a landlocked country bordering Brazil, Argentina, and Bolivia (total area: 400,000km<sup>2</sup>), with a population of some 6 million people. Its key industry is agriculture, primarily the cultivation of soy beans and cotton. Per capita GNI stands at US\$1,170 (2004). The Duarte administration is currently striving to set a stage for sustainable economic growth by pushing forward various reforms which include strengthening democracy, wiping out corruption, and improving the fiscal and legal framework.

Since the establishment of diplomatic relations with Japan in 1919, Paraguay has been on friendly terms with Japan and is known for its strong affinity toward the country. When President Duarte visited Japan in October 2005 he had a meeting with the Japanese Prime Minister where the leaders confirmed that the two countries will further strengthen amicable and cooperative ties. What characterizes this bilateral relation is the existence of ethnic Japanese residents in Paraguay. (Immigration to Paraguay began in 1936, and currently about 7,000 Japanese descendents reside in the country.) Contributions by this ethnic group to the farming sector and other social sectors in Paraguay are highly regarded.

Since the project site is close to the Yguazu Japanese community, Japanese descendents living in this region also have high expectations for the project's positive impacts on the regional economy.