

JBIC Signs ODA Loan Agreement with Cambodia

--Improving the Investment Climate by the Construction of a Power Network in the Fast-Growing Mekong Region--

1. Japan Bank for International Cooperation (JBIC; Governor: Kyosuke Shinozawa) signed on March 26, 2007 an ODA loan agreement totaling up to 2,632 million yen with the Royal Government of Cambodia to finance the Greater Mekong Power Network Development Project (Cambodia Growth Corridor).
2. This Project will extend 230kV double-circuit transmission lines for a total length of about 78km from Kampot to Sihanoukville in the Cambodia Growth Corridor[1], and construct substations and a distribution system. The purpose of the project is to improve the investment environment by increasing the power supply capacity in the area. This new ODA loan project is expected to further improve the investment climate in Sihanoukville where one of the Special Economic Zones (SEZ) has been developed under another ODA loan project. This loan is cofinanced with the Asian Development Bank (ADB), with JBIC financing the construction of transmission and distribution lines, while ADB finances the construction of substations and consulting services. The capacity building for the executing agency, Electricité du Cambodge, will be jointly supported by JBIC and ADB.
3. Cambodia, one of the countries of the Mekong region[2], has witnessed a stable political situation and solid economic growth for the last several years. There still remains a sizable economic gap between Cambodia and the original ASEAN member countries (such as Thailand and Malaysia), in terms of income and living standards. It is therefore high on the country's agenda to bridge these gaps and move forward for the "Development of the Mekong region" through regional cooperation. The fact that the electrification rate in Cambodia remains one of the lowest in the region due to the lack of generation capacity and a nationwide transmission network indicates the necessity of urgent improvement in the power supply in Cambodia. Additionally, its heavy dependence on imported oil for fuels has pushed up electric utility rates to two to seven times higher than those in the neighboring countries. The network formulation by its connecting to other transmission lines under construction with the assistance of other donors[3], will enable the area to receive an affordable and reliable supply of power from Vietnam.
4. Considering the significance of the development of Mekong region, Japan has been committed to the region in a larger scale. At the East Asia Summit held in January 2007, Prime Minister Abe announced that the Mekong region would be designated as one of the ODA priority regions for the coming three years, and that Japan would increase ODA assistance for countries in the region. JBIC will continue to provide comprehensive support for improving the investment climate and invigorating economic activity through its financial assistance for the economic infrastructure development necessary for the economic growth of Cambodia.

(Click here for details.)

[1] The central area of Cambodia, which extends from Kampong Cham, a distribution hub of farming products, to its capital Phnom Penh, and further to Sihanoukville with the only deep sea port in the country, is called the "Cambodia Growth Corridor," with its leading role in the Cambodian economy and its population comprising over 45% of the total population.

[2] The Mekong region consists of Cambodia, Laos, Myanmar, Vietnam, Thailand and Yunnan Province, China, in the basin of the Mekong River that runs through Indochina from north to south. The region has an area of 2.3 million km² (six times that of Japan) and population of 250 million (twice that of Japan). These countries, with the exception of China and Thailand, newly joined ASEAN in the latter half of the 1990s (Thailand was a founding member of ASEAN in 1967).

[3] ADB, the World Bank and Nordic Development Fund have financed the construction of the transmission lines from the Vietnam border to Phnom Penh, while KfW has supported the construction of transmission lines from Kampot to Takeo.

1. Loan Amount and Terms

| Project Name | Amount (mil. yen) | Interest Rate (% per annum) | Repayment Period/ Grace Period (years) | Period (years) Procurement |
|---|-------------------------|-----------------------------------|---|----------------------------------|
| Greater Mekong Power Network Development Project (Cambodia Growth Corridor) | 2,632 | 0.01%* | 40/10 | General Un tied |

* Lending terms under the MIRAI Initiative[1]

2. Project Executing Agency

Electricité du Cambodge

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3. Political and Economic Conditions in Cambodia

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In Cambodia, after the long years of war, the Paris Peace Accord was signed in 1991, followed by the establishment of the government of the Kingdom of Cambodia in 1993.

Although the year 1997 saw armed conflicts, the political situation has remained relatively stable since the new administration was formed under Prime Minister Hun Sen in 1998.

Cambodia has rapidly moved ahead with its transition from the planned economy to the market economy, as well as its integration into the international economy through its entry into ASEAN in April 1999 and WTO in October 2004. Cambodia is thus steadily coming back to the international community.

The last five years have witnessed its successful economic development, with its GDP growth rate between 6% and 10%. This was especially true in 2005, when the economy grew by 13.4% driven by increases in agricultural output. On the other hand, however, per capita GDP is still around \$380, the lowest level among ASEAN member countries in 2005, and the population below the poverty line accounts for 35% of the total in Cambodia. For the country to improve the investment climate and further promote economic growth, as well as accomplish poverty reduction, it is crucial to develop social infrastructure, including roads, electric power and telecommunications.

[1] New ODA loans' concessional scheme with a 0.01% interest rate and 40-year repayment period applicable to low-income LDCs. MIRAI stands for Minimal Interest Rate Initiative for low-income LDCs. The word "MIRAI" also means "future" in Japanese.