

JBIC Signs ODA Loan Agreements with India

--Supporting Economic Infrastructure as Underpinnings for Economic Development--

1. On September 14, Japan Bank for International Cooperation (JBIC; Governor: Kyosuke Shinozawa) signed two Japanese ODA loan agreements totaling up to 39,555 million yen in aggregate with the Government of India to finance "the Maharashtra Transmission System Project" and "Goa Water Supply and Sewerage Project."
2. The Maharashtra Transmission System Project consists of expanding and improving transmission facilities to ensure a stable power supply in the State of Maharashtra, the commercial and industrial hub of India in which a number of direct investments are being made by Japanese and other foreign firms. The Goa Water Supply and Sewerage Project consists of rehabilitating and expanding water supply facilities, as well as newly constructing and expanding sewerage facilities in the State of Goa, one of the major tourist destinations in India and an area where there has been increasing natural resource mining and other economic activities. Drawing on Japanese knowhow on preventing leakages, the project will offer safe and stable water supply services, thereby seeking to supply water 24 hours a day for the first time in India.
3. Since 1991, the Indian economy has posted an annual average of 6% growth for more than 15 years, elevating its GDP to the 10th largest in the world and drawing increased attention as one of the BRICs in recent years. Despite this progress, the development of electric power and other infrastructure has failed to catch up with such high economic growth, raising concerns that the seriously lagging infrastructure could pose a bottleneck to future growth. Further, rapid growth has accelerated urbanization and aggravated environmental problems such as water pollution and poor living conditions in the urban areas. The newly signed Japanese ODA loans will support the Indian government's efforts to tackle these challenges, thereby contributing to the country's sustainable socio-economic development.
4. Loans to these two projects were made possible because there is now an increased flexibility in processing projects. Under the new Double Track system, which was adopted following the Japanese government's announcement in June that the processing of projects to be financed by Japanese ODA loans will be made more flexible, the appraisal procedures and lending decisions will take place twice a year instead of the traditional once a year. This will cut short the time taken for the conclusion of Japanese ODA loans by about six months.^[1] India is designated as the model country, as these projects are the first cases for which Japanese ODA loans were provided under the Double Track system.
5. India is increasing its presence in the global community by strengthening economic relations with the United States and ASEAN countries. For Japan, in addition to traditional, historical, cultural and religious ties, India's importance has also been growing as a destination of trade and investment, with its 300-million middle class population overtaking its counterpart in ASEAN countries and its IT sector rapidly growing. Thus there are high expectations for closer ties between Japan and India. Under these circumstances, JBIC's provision of Japanese ODA loans for infrastructure development and environmental improvement to support India's sustainable growth will further strengthen bilateral relations.

(Click here for details.)

[1] In addition to the measures taken so far, the Government of Japan announced in June 2007, an additional set of concrete measures to accelerate each stage from project formation to implementation. More flexibility regarding the timing of project signing is one of such measures.

Project Amount and Terms

Project Name	Amount (Mil. Yen)	Interest Rate (% per annum)		Repayment Period /Grace Period (Year)	Procurement
		Main Component	Consulting Services		
Maharashtra Transmission System Project	2,000	16,749	0.01	15/5	General Untied
Goa Water Supply and Sewerage Project	22,806	1.3 0.75*	0.01	30/10 40/10*	General Untied
Total	39,555				

*Preferential terms are applied to the sewerage component as it will contribute to environmental improvement.

(1) Maharashtra Transmission System Project

(a) Project Background and Necessity

Maharashtra is the largest state in terms of economic size in India (accounting for 14.7% of the national GDP). Industrial clusters have been formed in Mumbai, the state capital, and the neighboring cities of Pune and Thane where a large number of foreign companies, including about 70 Japanese firms, are operating. As demand for electric power that underpins industrial activities has been growing 7% on an annual average, the state government is buying electricity from outside the state, while planning a large-scale power source development to meet this sharply rising demand. However, many transmission facilities and substations have tight capacities for transmitting and distributing power to consumers. Thus there is an urgent need to increase and improve transmission and substation facilities.

(b) Project Objectives and Outline

The purpose of the project is to ensure a stable power supply to meet the rapidly growing power demand by developing transmission facilities in the western Maharashtra, thereby contributing to economic growth and improved living conditions in the region.

The substations located in western Maharashtra are expected to face overload within a few years. Under the project, the existing transformers will be replaced by large-capacity transformers to ensure a stable power supply to the western region of the state, which includes the industrial zones.

In addition, Total Quality Management will be introduced to the project in an effort to encourage the whole organization to share and attain the common quality management goal, thereby strengthening the institutional capacity of the Executing Agency.

The proceeds of the loan will be used for procurement of a transformers and related equipment, installation works, and consulting services.

Project Executing Agency: Maharashtra State Electricity Transmission Company Limited

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(2) Goa Water Supply and Sewerage Project

(a) Project Background and Necessity

Goa, a state facing the Arabian Sea, has a population of 1.4 million. The state attracts a large number of foreign tourists every year. Economic activities are also increasing, including vigorous mining of natural resources. While the rapidly rising population and tourists, brisk economic activities and improved living standards have increased water consumption, water supply fails to meet the demand, causing serious water shortages.

Goa has a relatively abundant annual rainfall of 3,000 millimeters.¹ In addition, nearly all residents of the state have access to water supply service, with a water meter at each end-user that allows water fee collection based on monthly water consumption. Thus Goa is considered to have sufficient administrative and institutional capacities to manage water volume properly in each water distribution district and adopt water saving measures. The project is expected to realize the first 24 hours x 7 days water supply service in India, having a head start over other states in the country.²

With regard to sewerage, since sewerage development has failed to catch up with population growth, only 13% of the urban residents have access to a sewage treatment system in Goa. This has allowed untreated sewage and wastewater to flow into the public water body, including beaches that are essential for tourism, the state's main industry. This has deteriorated the environment and raised concerns of an adverse effect on the tourism industry. Both water supply and sewerage systems are beset with maintenance problems, including aging facilities and deteriorating or broken pipes. There is an urgent need to adopt an appropriate management method for operation and maintenance including prevention of leakages.

(b) Project Objectives and Outline

The purpose of the project is to expand and rehabilitate water supply facilities in order to increase the capacity of the water supply system that takes water from the Salaulim Dam to Mormugao, Salcete, Quepem and part of Sanguem in southern Goa. The project will also newly construct and expand sewerage facilities in Margao city, the largest commercial city of Goa, Mapusa city, the largest city in northern Goa, and North Coastal Belt, a tourist resort. The project is thus expected to contribute to improved living conditions for the local residents by providing a safe and stable water supply and sewerage services that will meet the rapidly increasing water demand.

Under the project, a variety of measures will be carried out: water leakage detection teams will be formed for leakage control; and the water volume management system will be introduced to grasp and control the pressure and quantity of water distributed to each water distribution district. By implementing these measures, Goa is expected to supply water 24 hours x 7 days ahead of other Indian states. There are high expectations that this project will be disseminated in other states as well. In particular, to prevent water leakage, JBIC held a seminar jointly with the Bureau of Waterworks, Tokyo Metropolitan Government, which boasts the lowest leakage rate among developed countries, and made presentations on the past and current efforts for leakage control. JBIC intends to share Japan's advanced knowhow and expertise on operation and maintenance of water supply with the executive agency making use of the JICA scheme for dispatching of experts from Japan.

In addition to these efforts, the Project will strive to improve the quality of service of the executive agency, by collecting and reflecting the views of end-users of water supply and sewerage to be fed back to the executive agency on a regular basis. The Project will also carry out community awareness-raising activities, in partnership with local NGOs, to increase the understanding of saving water and connecting sewer pipes to each household.

The loan will fund civil works for constructing water supply and sewerage facilities, procurement of machinery and equipment, and consulting services.

¹ For example, annual rainfall in Delhi, the capital city of India is only 600 millimeters.

² Currently water supply is provided 8 hours a day on average in Goa, while 3.5 hours a day in Delhi, the capital city, and about 6 hours for every other day in Bangalore, where many Japanese firms are conducting business operations.