

Signing of Japanese ODA Loan Agreements with the Republic of Peru

Contributing to the development of renewable energy and disaster preparedness

On November 7, the Japan International Cooperation Agency (JICA) signed loan agreements with the Government of the Republic of Peru in the capital of Lima to provide loans up to 6.944 billion yen and 2.48 billion yen, respectively, for the Moquegua Hydro Electric Power Plants Construction Project and the River Basins Flood Protection Project in Coastal Area of Peru.

The fifth most populous country in Latin America with approximately 30 million people, Peru is one of the world's greatest producers of mineral resources such as copper, gold, lead, molybdenum, silver and zinc, and is also one of the most important countries in the Andes Region for its abundant agricultural and marine products. Driven by steady exports of mineral resources, Peru has maintained stable economic growth in recent years. While retaining the macroeconomic policies that have enabled a high growth rate, President Ollanta Humala, who assumed office on July 28, 2011, has established "social inclusion" as a key development policy, with its focus on the poor, and has proactively implemented measures to fight poverty, mitigate disparities, assist the social sector, improve infrastructure and preserve the environment. The promotion of infrastructure improvement in particular is vital not only for sustainable economic growth but as an environmental development measure for mitigating disparities. Peru is vulnerable to natural disasters and is aware of the great threat that the human and economic damage caused by natural disasters pose to sustainable socioeconomic development. To strengthen the ability of the country to respond to natural disasters at each stage—preparedness, mitigation and recovery—is essential for the development of Peru.



Signing ceremony

The two projects for which the two loans were signed will address development needs in these areas.

The features of these two projects are as described below.

(1) Promoting renewable energy development in the southern area of Peru

The Moquegua Hydro Electric Power Plants Construction Project will construct two hydroelectric power plants and accompanying facilities in Moquegua Region, in southern Peru, to reduce the dependency on long-distance power transmission from central Peru and ensuring a more stable supply of power in the southern area.

The Government of Peru is currently implementing the Pasto Grande Special Regional Project (1) (PG Plan) in Moquegua Region with the objective of building irrigation facilities to expand agricultural production, and the hydroelectric power plants to be constructed under the present project will produce power with irrigation water downstream of the reservoir in the PG Plan target area. Because the water level is stable throughout the year, the power plants will be able to provide a steady supply of power without being affected by the seasons.

(2) Improving the living environment for rural residents with river improvements for flood control

Located on the Pacific Ring of Fire like Japan, Peru is at great risk for various natural disasters. Damage from floods and landslides accompanying El Niño in particular also poses a great risk to the socioeconomic development of Peru, and alleviating the risk of floods through measures such as riparian improvements is a pressing issue that must be addressed for sustainable economic development in Peru. The River Basins Flood Protection Project in Coastal Area of Peru will construct river bank improvements, construct irrigation facilities and carry out other flood measures in three river watersheds along the coast of the country to alleviate the risk of flooding there.

With the objective of mainstreaming disaster preparedness, JICA signed a Memorandum of Understanding in March 2014 with the office of the prime minister of Peru who is in charge of disaster prevention and concluded a loan agreement for the Stand-By Emergency Credit For Urgent Recovery (SECURE) that same month. Under this MOU and agreement, JICA has studied assistance for this project to strengthen disaster risk management. The present project is expected to act as a pilot initiative for flood measures in Peru, with the results being applied in subsequent work in the country. Furthermore, a study is currently underway to propose policies and systems necessary to mainstream disaster preparedness in Peru. It is hoped that, based on the results of that study, the Government of Peru will investigate and make pre-disaster investments for strengthening the country's resilience to disasters.

(Reference) Terms and Amount of Loan

Project title	Amount (million yen)	Annual interest rate (%)		Repayment period (years)	Grace period (years)	Procurement
		Project	Consulting services			
Moquegua Hydro Electric Power Plants Construction Project	6,944	0.40	0.01	20	6	General untied
River Basins Flood Protection Project in Coastal Area of Peru	2,480	0.40	0.01	20	6	General untied

(1) Moquegua Hydro Electric Power Plants Construction Project

(a) Background and Necessity

Given the firm economic growth in recent years, Peru is forecast to have an annual increase in power demand of 8.2 percent between 2013 and 2022 based on predictions from the Ministry of Energy and Mines (2), and is expected to need to triple the country's power supply capacity by 2030. In the southern part of the country in particular, more than half of the power demand must be covered during the dry season when hydroelectric power generation capacity is reduced, by power transmission from the central region which has more power resources. Furthermore, with the power demand expected to rise with mining resource development in the south, strengthening the power generation capacity there is a priority.

(b) Objective and Summary

The present project will construct two power plants (total production capacity: approximately 33 megawatts) and related facilities in Moquegua Region in the Republic of Peru, contributing to a stable power supply in the region, promoting the diversification of energy sources and mitigating climate change.

The loan funds will be allocated to public works and the procurement of equipment for constructing the hydroelectric power plants and related facilities, and to consulting services.

(c) Executing agency

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(d) Planned Implementation Schedule

- i. Completion of project: January 2021 – when the facilities are put into service after the guarantee period is over
- ii. Issuing of letters of invitation for consulting services (including detailed design, bidding assistance and construction monitoring): November 2014
- iii. Tender announcement of initial procurement package for international competitive bidding on project construction:
 - Procurement package title: Public Works and Equipment
 - Release date: April 2016

(2) River Basins Flood Protection Project in Coastal Area of Peru

(a) Background and Necessity

Although at risk for a variety of natural disasters, including floods, earthquakes and landslides, Peru's highest frequency of disasters is flooding. Between 2003 and 2011, flooding occurred at least 200 times each year, affecting anywhere from tens of thousands to millions of people. The risk from large-scale flooding is particularly high during El Niño years, which occur on a multi-year cycle; the flooding and landslide disasters caused by heavy rains occurred many times in every region of Peru during the El Niño events from 1982 to 1983 and 1997 to 1998, creating tremendous human and economic damage.

When heavy rains cause flooding, agricultural productivity is deeply affected, threatening the livelihoods of regional residents, particularly those of low-income households with a vulnerable economic base. Reducing the risk of flooding with flood control infrastructure throughout the river basins is therefore a priority for sustainable economic development in Peru.

(b) Objective and Summary

The present project will implement flood measures, including riparian improvements, in three river basins in Lima and Ica Regions along the coastline of Peru, alleviating the risk of floods there, and contributing to sustainable economic development in those regions and assuring safety for local residents.

The loan funds will be allocated to public works in the areas of river channel dredging, levee construction, riverbank work and afforestation, and to consulting services.

(c) Executing agency

Irrigation Sub-sector Program (3) (PSI), Ministry of Agriculture and Irrigation (4)

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(d) Planned Implementation Schedule

i. Completion of project: May 2018 – when the facilities are put into service

ii. Issuing of letters of invitation for consulting services (including bidding assistance and construction monitoring): March 2015

iii. Tender announcement of initial procurement package for international competitive bidding on project construction:

Procurement package titles: The Cañete River Sub-project, the Chincha River Sub-project, and the Pisco River Sub-project

Release date: October 2015

Notes:

1: Proyecto Especial Regional Pasto Grande

2: Ministerio de Energía y Minas

3: Programa Subsectorial de Irrigaciones

4: Ministerio de Agricultura y Riego