

JBIC Extends First Special Yen (ODA) Loan to the Philippines

--To improve the living environment of the greater Manila metropolitan area and promote regional development--

1. Japan Bank for International Cooperation (Governor: Hiroshi Yasuda) signed agreements to extend ODA loans totaling 39.457 billion yen to the Republic of the Philippines. The loan agreements were signed by Koichi Kosumi, Senior Executive Director of the JBIC, and Jose T. Pardo, Secretary, Department of Finance of the Philippines in Manila. The cumulative commitment of ODA loans to the Philippines to 1,783.93 billion yen for 239 projects.
2. The LRT Line 1 Capacity Expansion Project (Phase II), the Kamanava Area Flood Control and Drainage System Improvement Project, and the Mindanao Container Terminal Project covered by these loan agreements are being financed under the Special Yen (ODA) Loan scheme established in December 1998. This is the first application of the Special Yen (ODA) Loan scheme to the Philippines.
3. These projects will expand the railway system to improve the living environment of the capital region around Manila, improve flood control and drainage facilities, and upgrade a vital port facility in the island of Mindanao to promote regional development. These projects will accelerate the economic recovery of the Philippines by stimulating the economy and creating employment, and will also promote economic structural reform by improving the infrastructure for private investment and increasing productivity.
4. JBIC has long provided support for efforts toward sustainable growth in the Philippines, based on Japan's basic policy for Economic Cooperation to the Philippines which was compiled through the policy dialogue between Government of Japan and Government of the Philippines in March 1999. In December 1999, the JBIC prepared its Medium-Term Policy for Overseas Economic Cooperation Operations for the Philippines. JBIC explicitly established its basic objectives which are primarily to provide support for (1) strengthening the economic structure and overcoming factors which restrict the sustainable growth, (2) alleviating poverty and mitigation of regional disparities, (3) promoting environmental conservation and disaster mitigation, and (4) development of human resources and institution building. The current loan commitments are consistent with these objectives.

(See Appendix for details.)

Amounts, Terms and Conditions

Project Name	Loan amount (million yen)	Interest Rate (%/Year)		Repayment Period /Grace Period (years)		Tying Status	
		Goods & Services	Consulting Services	Goods & Services	Consulting Services	Goods & Services	Consulting Services
LRT Line 1 Capacity Expansion Project (Phase II)	22,262	1.0*	0.75**	40/10	40/10	Tied	Bilateral Tied
Kamanava Area Flood Control and Drainage System Improvement Project	8,929	1.0*	0.75**	40/10	40/10	Tied	Bilateral Tied
Mindanao Container Terminal Project	8,266	1.0*	0.75**	40/10	40/10	Tied	Bilateral Tied
Total	39,457						

* Special Yen (ODA) Loan project

** Special environmental project

1. Loan Background and Necessity

When President Estrada took office in June 1998, he followed the course toward economic liberalization that was supported by the previous administration and advocated structural adjustments including financial sector reform. At the same time, he also promoted policies to support the social sectors that had been hit hard by economic problems and to mitigate regional disparities through rural development measures.

The Philippine economy suffered negative growth in the early 1990s. However, as a result of infrastructure improvements and deregulation under the Ramos administration, which assumed office in June 1992, it gradually recovered, achieving real GDP growth of about 5% from 1994 to 1997.

Unfortunately, the effects of the Asian currency crisis that began in July 1997 gradually spread to the Philippines. This resulted in the drastic devaluation of the peso, increasing inflationary pressure, sluggish direct foreign investment, which resulted in falling investments. Agricultural production suffered as a result of the El Niño phenomenon, and in 1998, the real GDP posted a negative growth rate. Nonetheless, since the effect of the Asian currency crisis was less severe in the Philippines than elsewhere, its economy began to show favorable signs of recovery in 1999. To completely overcome the effects of the currency crisis and maintain sustainable growth, the country has to work to accelerate economic recovery by further stimulating the economy and creating employment, improve the infrastructure for private investment, and increase overall productivity. Special Loan funds are extremely important to support these initiatives.

JBIC has long been providing active support for efforts towards economic growth in the Philippines. While it is necessary to continue providing active support and promoting economic structural reforms, JBIC has set out some basic **objectives**¹ for that support based on policy dialogue between the Government of the Philippines and a high level mission on economic and technical cooperation from the Japanese Government in March 1999. Based on these objectives, JBIC prepared its Medium-Term Policy for Overseas Economic Cooperation Operations for the Philippines in December 1999. These Special Loan commitments are consistent with the Medium-Term Policy for Overseas Economic Cooperation Operations.

1. Four objectives: (1) strengthening the economic structure and overcoming factors which restrict the sustainable growth, (2) alleviating poverty and mitigation of regional disparities, (3) promoting environmental conservation and disaster mitigation, and (4) development of human resources and institution building. (back)

2. Project Descriptions

(1) LRT Line 1 Capacity Expansion Project (Phase II)

Traffic congestion in Metro Manila has worsened as a result of the increase in the number of automobiles and in automobile use that accompanied the economic development of the 1990s. This congestion has resulted in economic losses and aggravated air pollution. This created the need for an environmental friendly mass transit system that offers reliable service.

Plans are being developed to build a 6-line elevated rail network in Metro Manila. The Light Rail Transit (LRT) Line 1, which was completed in 1985, was well accepted and liked by commuters for its safety and reliable service. However, as the city's chronic traffic congestion worsened, Line 1 quickly reached its initial carrying capacity limit. Its carrying capacity was targeted for expansion using funds from the JBIC (LRT Line 1 Capacity Expansion Project (Phase I)). That project was completed in December 1998.

To improve the railway network in Metro-Manila, work is underway on Mass Rail Transit (MRT) Line 2 which runs east-west through Metro Manila and on MRT Line 3 which runs in a semicircle around that region. MRT Line 2 is slated for completion in 2002, and a part of MRT Line 3 was opened for operation in December 1999. Once these lines are completed, central Metro Manila will have its first-ever railway network. With the completion of these lines, however, the city can expect to see an increase in the number of passengers transferring from Lines 2 and 3 to Line 1. This has raised concerns over the sufficiency of the current capacity of Line 1 and this created the need to further increase that line's capacity.

To improve the capacity of LRT Line 1, this project will provide 12 four-car trams (48 cars) and will improve the signal system including the Automatic Train Control (ATC) System by shortening the current 2.5 minute minimum interval between trains to only 2 minutes. It will also widen platforms, increase the number of station entrances and exits, and install signaling and air conditioning in the 64 existing cars. This would enable LRT Line 1 to handle the maximum demand of 40,000 passengers per hour. In addition to increasing the facility capacity, these measures are designed to improve the urban transportation system in Metro-Manila, which is currently heavily dependent on road transportation, and to help alleviate traffic congestion and improve the environment.

This project is consistent with the objectives established for the Philippines in the JBIC's Medium-Term Policy for Overseas Economic Cooperation Operations. These objectives include for (1) strengthening the economic structure and overcoming factors which restrict the sustainable growth, (2) alleviating poverty and mitigation of regional disparities, (3) promoting environmental conservation and disaster mitigation, and (4) development of human resources and institution building.

The proceeds of the loan will be used for the purchase of such items as railway cars and signal systems including related civil works and consulting services (detailed designs, assistance with bidding, construction supervision, environmental monitoring, etc.).

The executing agency is the Light Rail Transit Authority (LRTA); Administration Building, LRTA Compound, Aurora Boulevard, Pasay City, Metro Manila, Philippines, Tel: 63-2-832-3141, Fax: 63-2-831-6449.

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(2) KAMANAVA Area Flood Control and Drainage System Improvement Project

Because of the geographical locations and climatic conditions of the Philippines, about 20 of the 30 typhoons generated every year in the Pacific Ocean approach the country's area of responsibility. About half of these eventually hit the country. Flood damage is a frequent result of the torrential rains that are brought by these typhoons. Because Metro Manila, including the area targeted by this project, lies on low ground, it has been plagued with serious flooding from overflowing rivers and inadequate drainage. The process of urbanization and the increasing concentration of the population have only increased the threat of flood damage to the capital region. The river flows have been hampered by the increased amounts of waste and dirty water being dumped into the river and the accumulation of sludge on the river bottom.

The KAMANAVA area (Kaloocan, Malabon, Nabotas, Valenzuela) targeted by this project is among the capital region's lowest lying areas at only 0 to 1.5m above sea level. The area is regularly subject to flood damage due to river overflows and inadequate drainage resulting from rainfall and surges. This project will repair river walls and improve pumping stations, floodgates, and drainage channels. In the process, it will improve the living conditions of the affected residents as well as the natural environment, and will contribute to the region's economic development.

This project reflects the importance of the flood control sector in the Philippines and is ranked among the important support sectors since, as a disaster mitigation project (which includes flood control measures), it is also an environmental project. It is also consistent with the objectives established for the Philippines in the JBIC's Medium-Term Policy for Overseas Economic Cooperation Operations. These objectives include for (1) strengthening the economic structure and overcoming factors which restrict the sustainable growth, (2) alleviating poverty and mitigation of regional disparities, (3) promoting environmental conservation and disaster mitigation, and (4) development of human resources and institution building.

The proceeds of the loan will be used for the civil works and equipment needed to implement this flood control project and for consulting services (foundation surveys, detailed designs, assistance with bidding and contracts, environmental monitoring, etc.). The Government of the Philippines would be responsible for carrying out the appropriate procedures for purchase of lands and for relocation of residents as may be necessary in implementing this project. The government plans to follow-up on the living environment of the residents that are relocated and ensure that they can make a living in their new locations.

The executing agency is the Department of Public Works and Highways (DPWH), Bonifacio Drive, Port Area, Manila, Philippines, Tel: 63-2-527-4807, Fax: 63-2-527-5635.

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(3) Mindanao Container Terminal Project

With the distinct geographical trait of being an archipelago comprising of more than 7,000 islands, the Philippines relies heavily on maritime transportation in its economic and social activities. Improvements of port facilities to facilitate smooth maritime transport are therefore essential. Specifically, the development of main ports that can serve as central nodes in the distribution network are essential for promoting regional development, an important aspect for the nation's economy.

The island of Mindanao targeted by this project enjoys bountiful natural resources, a suitable climate for agriculture and a vast potential for economic development. However, it is developing more slowly than such islands as Luzon and Cebu because the levels of its economic and infrastructure development are lower than the national average. The delayed improvement of port facilities in the island, in spite of drastic increases in container and non-container cargo volumes, is creating a bottleneck in the island's economic development.

Because the existing port lacks container handling facilities, this project will construct a central port in northern Mindanao and a container terminal equipped with modern machinery, including gantry cranes², that will enable it to meet the expected increases in demand for container cargo handling. These measures are intended to improve the infrastructure in northern Mindanao and promote the development of the regional economy.

This project is consistent with the objectives established for the Philippines in the JBIC's Medium-Term Policy for Overseas Economic Cooperation Operations. These objectives include for (1) strengthening the economic structure and overcoming factors which restrict the sustainable growth, (2) alleviating poverty and mitigation of regional disparities, (3) promoting environmental conservation and disaster mitigation, and (4) development of human resources and institution building.

The proceeds of the loan will be used for the procurement of such equipment as cargo handling machinery, civil works and consulting services (detailed designs, assistance with bidding and contracts, construction supervision, environmental monitoring, organizational support for the executing agency, etc.).

The executing agency is the PHIVIDEC Industrial Authority (PIA), PHIVIDEC Industrial Estate, Tagoloan, Misamis Oriental, Philippines, Tel: 63-088-5670-135, Fax: 63-088-5670-194.

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2. Cranes used to transfer containers from the vessel to the dock.