

JBIC Extends Special Yen (ODA) Loan of 34,723 million yen to the Philippines

- To improve the local airport, seaport and roads -

1. Japan Bank for International Cooperation (Governor: Hiroshi Yasuda) decided to extend three ODA loans totaling up to 34,723 million yen to the Republic of the Philippines, and signed the loan agreements at the JBIC's Head Office today. The cumulative commitment of ODA loans made by JBIC to the Philippines amounts to 1,818,626 million yen for 242 projects.
2. The loan agreements are designed to finance the New Iloilo Airport Development Project, Subic Bay Port Development Project, and the Second Magsaysay Bridge and Butuan City Bypass Road Construction Project, under the Special Yen (ODA) Loan scheme established in December 1998. This is the second application of the Special Yen (ODA) Loan scheme to the Philippines, following the commitment signed in April of this year (totaling 39,457 million yen for three projects).
3. The objective of the "New Iloilo Airport Development Project" is to improve the major airport in Panay Island located in the central part of the Philippines. This is in response to the growing demand for air traffic, whereas, the "Subic Bay Port Development Project" aims at boosting distribution efficiency and alleviating traffic congestion at the Manila Port by improving the Subic Bay Port in the central Luzon area. "The Second Magsaysay Bridge and Butuan City Bypass Road Construction Project" will involve construction of a bridge and a bypass road to improve transportation efficiency in the northeastern area of Mindanao Island. The objective of all three projects is to contribute to the regional economic and social development in the Philippines.
4. In December 1999, JBIC prepared "Medium-Term Policy for Overseas Economic Cooperation Operations for the Philippines" which includes the following priority areas: (1) Strengthening the economy and removing obstructions to sustainable growth; (2) Reducing poverty and correcting regional disparities; (3) Providing environmental conservation assistance including disaster management; and (4) Developing human resources and the fostering of development of institutions. The current loan commitments are in line with these objectives.

(See Appendix for details.)

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Japan Bank for International Cooperation (Governor: Hiroshi Yasuda) decided to extend three ODA loans totaling up to 34,723 million yen to the Republic of the Philippines, and signed loan agreements at the JBIC's Head Office today. The signing took place between Governor Yasuda, Joel A. Bañares, Joel A. Banares, Undersecretary, Department of Finance, the Republic of the Philippines, and Felicito C. Payumo, Chairman & Administrator, Subic Bay Metropolitan Authority. The cumulative commitment of ODA loans made by JBIC to the Philippines amounted to 1,818,626 million yen for 242 projects.

1. Loan Amount and Conditions

Project Name	Amount (Mil. yen)	Interest Rate (%/Year)		Repayment Period/ Grace Period		Tying Status	
		Goods & Services	Consulting Services	Goods & Services	Consulting Services	Goods & Services	Consulting Services
New Iloilo Airport Development Project	14,724	0.95*	0.75**	40/10	40/10	Tied	Bilateral Tied
Subic Bay Development Project	16,450	0.95*	0.75**	40/10	40/10	Tied	Bilateral Tied
Second Magsaysay Bridge and Butuan City Bypass Road Construction Project	3,549	0.95*	0.75**	40/10	40/10	Tied	Bilateral Tied

* Special Yen (ODA) Loan project

** Special environmental project

2. Background and necessity of the loan

The Asian currency crisis that broke out in July 1997 was felt incrementally in the Philippines, with the drastic devaluation of the peso, escalating inflation, and sluggish foreign direct investment. The country also endured the El Niño effect with subsequent decline in agricultural output. The GDP growth rate fell below zero in 1998. After hitting bottom, the Filipino economy has started to show signs of slow recovery. Nonetheless, if the Philippines is to achieve sustainable growth, it is urgent that projects be initiated that will effectively stimulate the economy and boost employment to strengthen the country's economic structure.

JBIC has positively supported the government of the Philippines' efforts to achieve sustainable growth. On the part of the Philippines, which was adversely affected by the Asian crisis, there is an increasing need for financing to secure future growth, and the Estrada administration announced its intention for further development in its "New Medium-Term Development Plan". It was against this background that the Japanese government dispatched a High Level Mission on Economic and Technical Cooperation in March 1999 to have a policy talks with the government of the Philippines and laid out the priority areas/issues (Note) for long- and medium-term economic cooperation with the Philippines. JBIC prepared the Medium-Term Policy for Overseas Economic Cooperation Operations for the Philippines in line with these objectives. The latest Special Loan commitments were made under this Medium-Term Policy. The loan commitments, which are the second application of the Special Yen (ODA) Loan scheme to the Philippines after the loan commitments signed in April of this year (totaling 39,457 million yen for three projects), are beneficial in terms of economic ties between Japan and the Philippines; they will help Japanese businesses, which have advanced technology and know-how, to have greater access in business activities in the Philippines.

(Note) Four priority areas/issues include: (1) Strengthening of the economic structure for sustainable growth and the removal of obstructions to such growth; (2) Alleviation of disparities (reducing poverty and correction of regional disparities); (3) Environmental conservation and disaster management; and (4) Human resources development and fostering of development of institutions.

3. Project Description

(1) New Iloilo Airport Development Project

The demand for air transportation has shown a steady increase in the Philippines, although it still accounts for a relatively small percentage of total transportation in the country. Air transportation is considered a necessary prerequisite for the country's economic development, as it provides speed, regular operations, and comfort. As the economy expands and incomes rise, air transportation is expected to play an increasing role in passenger and cargo traffic in a country with more than 7,000 islands. The Government of the Philippines is planning to build at least one airport that conforms to international standards (International Civil Aviation Organization, ICAO) in each of the 13 regions, beginning with airports that have higher volume of domestic passengers.

The existing Iloilo Airport located on Panay Island in the Bisayas region is the main airport (domestic flights) for the central area in the Philippines. It is the fourth largest airport in the Philippines in passenger volume (annual volume 690,000 in 1997), and the average from 1990 to 1997 shows that the airport accounted for 5.0% of domestic passenger traffic and 3.3% of cargo traffic. Moreover, the annual growth rate of passenger and cargo volume from 1991 to 1998 was 8.3% and 4.7% respectively at Iloilo Airport, and similar growth is expected in the future.

This project will include the construction of a new airport with a runway length of 2,500-meter on the outskirts of Iloilo City in Iloilo Province on Panay Island. This airport is expected to meet the increases in demand for passenger and cargo traffic and improve air safety. These project objectives will promote sustainable economic and social development in Panay Island and the surrounding areas.

The proceeds of the loan will be used for public works needed for the runway and apron, the procurement of such equipment as air safety system, and consulting services (detailed designs, assistance with bidding, environmental monitoring, etc.).

The executing agency is the Department of Transportation and Communications (DOTC); Columbia Tower, Ortigas Ave., Mandaluyong City, Philippines, Tel: 63-2-726-7106, Fax: 63-2-726-7104.

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(2) Subic Bay Port Development Project

With its distinctive geographical character of an archipelago consisting of more than 7,000 islands, the Philippines relies heavily on maritime transportation in its economy and society. Improvements of port facilities are therefore essential to expedite smooth maritime distribution. However, port facilities improvements have not met with increases in cargo volume generated from economic development and internationalization of the Philippines. The increase in handling cargo load for the Manila port is especially pronounced due to economic activities concentrating in the Metro Manila area. This creates a distribution bottleneck. It is essential that congestion at major ports including the Manila Port be corrected and expansion of container cargo handling facilities be addressed to sustain economic growth.

This project will build a new container terminal and rehabilitate existing port facilities in the Subic Bay Freeport Zone to allow higher cargo handling capacity for the Subic port and facilitate and promote distribution in the Central Luzon, that includes the Subic area. The object of these measures is to promote regional economic development and alleviate congestion in the Manila Port.

The proceeds of the loan will be used for the civil works and equipment needed to construct the container berth, and consulting services (foundation surveys, detailed designs, assistance with bidding and contracts, environmental monitoring, etc.).

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(3) Second Magsaysay Bridge and Butuan City Bypass Road Construction Project

The road network is the primary transportation system in the Philippines, accounting for approximately 90 per cent of passenger traffic and around 50 per cent of cargo traffic. Investment for major road networks was made prior to the early 1980s and included main and secondary highways. The main objective was geared to expansion of the roads and not to their functional or qualitative aspects. As a result, there are many unpaved highways that make them inadequate as major arterial roadways. Furthermore, damage from natural disasters and insufficient alternative roads in case of emergencies have impaired efficient road use. As a result, immediate attention to development of a safe and efficient major road network is essential to promote domestic movement of people and commodities and bolstering regional economic areas.

The economic level of Mindanao Island, where the project is located, is below that of other regions in the Philippines. Development must be geared to reducing poverty. Unfortunately, the percentage of paved roads is lower than other regions; the national rate for paved road at 57% and Mindanao Island at 48%. Mindanao Island still faces many issues relating to road improvements.

This project, situated in the northeastern part of Mindanao Island will construct a new bridge and a bypass road for the main highway in Butuan City. The highway connects Butuan, Cagayan de Oro, and Iligan, and the bridge will be built where the highway crosses the Agusan River. These public works will alleviate traffic congestion in Butuan City and adjacent areas; facilitate transportation and traffic between the major cities in the northeastern part of the Mindanao Island; and help promote sustainable economic and social development in the northeastern part of the Mindanao Island.

The proceeds of the loan will be used for public works needed to construct the bridge and bypass road, and consulting services (foundation surveys, detailed designs, assistance in bidding and contracts, environmental monitoring, etc.).

The executing agency is the Department of Public Works and Highways (DPWH); Bonifacio Drive, Port Area, Manila, Philippines, Tel: 63-2-527-4111, Fax: 63-2-527-5635.

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