

Active Support to Correct Regional Disparities and Prevent Disasters in the Philippines

--38,786 million yen 25th ODA Loan Package and 33,701 million yen Special Yen (ODA) Loan Package--

1. Japan Bank for International Cooperation (JBIC; Governor: Kyosuke Shinozawa) on March 28, signed agreements with the government of the Philippines to provide the 25th ODA loan for four projects and a Special Yen (ODA) loan for three projects, totaling 72,487 million yen at the JBIC head office in Tokyo.
2. In step with the priority assistance areas for the Philippines as described in the "Medium-Term Strategy for Overseas Economic Cooperation Operations" set forth by JBIC in December 1999, the latest ODA loan commitments finance several projects that contribute to correction of regional disparities, disaster prevention and environmental conservation. They aim at a sustainable growth for the Philippines economy, with an eye to making the poor a direct beneficiary.
3. The following are characteristics of this year's ODA loan commitments.

(1) Support for correction of regional disparities

"Arterial Road Links Development Project (VI)" aims to develop arterial roads in rural regions to boost domestic traffic of passengers and goods, and to revitalize local economic activities, thereby contributing to the reduction of the regional income gap. The project will also encourage the participation of local residents from the target route selection phase, a new approach not only for the Philippines but for JBIC as well, in pursuit of more efficient project implementation. The purpose of "Bago River Irrigation System Rehabilitation and Improvement Project" is to help secure a stable food supply and elevate the income level of the rural population in Negros, where the declining rice production capacity due to wear and tear of the existing irrigation facilities is emerging as serious problem.

(2) Support for disaster prevention

Located in the tropical climate zone, the Philippines is hit by typhoons that are born in the Pacific Ocean annually. In addition, the city areas, stretching over low and flat land, are vulnerable to large-scale flooding and mudslide disasters frequently during the rainy season. "Iloilo Flood Control Project (II)" aims to improve living environments and sanitary conditions of local residents, and consequently help develop the regional economy, by setting in place disaster prevention civil works in the state of Iloilo on Panay Island. "Improvement of the Marine Disaster Response and Environment Protection System Project" is designed to procure and deploy disaster response ships equipped with oil pollution recovery functions, thus updating the safety of marine traffic in the Philippines, which largely depends on marine transport for its economic activities and people's living.

(3) Support for environmental conservation

In the Philippines, where a high growth is forecast in power demand, the primary energy sources at the moment are imported fossil fuels. The country is required therefore to secure sufficient power sources to meet the growing demand, to mitigate reliance on imported energy and to address the development of recyclable energy sources. The "Northern Luzon Wind Power Project" is the first commercially based wind power project in Southeast Asia, and is expected to contribute, as a project that puts recyclable energy into practical use, to lower reliance on fossil fuels. The project will also help prevent global warming through the use of wind power that produces only a miniscule stress on the environment. Wind energy and its practical application are looked upon with great expectations as a promising potential energy source in the Philippines.

Loan Amount and Conditions

-The 25th ODA Loan

Project Name	Amount (Mil. Yen)	Interest Rate (%/Year)		Repayment Period/ Grace Period (Year)		Tying Status	
		Project	Consulting Services	Project	Consulting Services	Project	Consulting Services
Arterial Road Links Development Project (VI)	6,723	2.2	0.75**	30/10	40/10	General Untied	Bilateral Tied
CNS/ATM Systems Development Project	22,049	2.2	1.8	30/10	30/10	General Untied	Bilateral Tied
Bago River Irrigation System Rehabilitation and Improvement Project	3,224	2.2	0.75**	30/10	40/10	General Untied	Bilateral Tied
Iloilo flood Control Project (II)	6,790	1.7*	0.75**	30/10	40/10	General Untied	Bilateral Tied
Total	38,786						

-Special Yen (ODA) Loan

Project Name	Amount (Mil. Yen)	Interest Rate (%/Year)		Repayment Period/ Grace Period (Year)		Tying Status	
		Project	Consulting Services	Project	Consulting Services	Project	Consulting Services
Urgent Bridges Construction Project for Rural Development	18,488	0.95***	0.75**	40/10	40/10	Japan Tied	Bilateral Tied
Improvement of the Marine Disaster Response and Environment Protection System Project	9,356	0.95***	0.95***	40/10	30/10	Japan Tied	Bilateral Tied
Northern Luzon Wind Power Project	5,857	0.95***	0.75**	40/10	40/10	Japan Tied	Bilateral Tied
Total	33,701						
Total		72,487					

* Interest for Standard Environmental Project

** Interest for Special Environmental Project

*** Interest for Special Yen (ODA) Loan

(See Appendix for details.)

1. Background and Necessity of this year's ODA Loans

The Philippines posted strong economic growth under the Ramos administration established in June 1992, but turned to negative growth in 1998 following the Asian currency crisis that began in Thailand in July 1997. Since then, the Philippine economy has shown recovery over subsequent years. However, to ensure sustainable economic growth, building an economic structure that can withstand similar crises in the future should be high on its agenda. In addition, poverty remains prevalent in the Philippines, and the disparity in income levels between urban and rural areas is widening. Based on this situation, in November 2001 the Government of the Philippines announced the Medium-Term Philippine Development Plan 2001-2004. Aiming to reduce poverty, the plan raises 13 main development issues: (1) Ensuring Sustained Growth with Equity and Macroeconomic Stability; (2) Promoting Full, Decent and Productive Employment; (3) Social Development and Fostering of Human Resources; (4) Protecting the Vulnerable Groups; (5) Agriculture and Fisheries Modernization with Social Equity; (6) Enhancing Competitiveness of Industry and Services; (7) Promotion of Tourism; (8) Enhancing Cooperation between the Public and Private Sectors; (9) Elimination of the Digital Divide; (10) Reducing Regional Disparities; (11) Urban Development; (12) Securing Peace and Development in Mindanao; and (13) Good Governance.

In March 1999, the Government of Japan dispatched a high-level mission for economic and technical cooperation to the Philippines and reached agreement with the Government of the Philippines on mid- and long-term priority assistance areas and objectives in line with the above-mentioned development goals. In the "Medium-Term Strategy for Overseas Economic Cooperation Operations", JBIC has placed the priority of its ODA loan support to the Philippines on the following four areas: (1) strengthening the economic structure and overcoming the bottlenecks for sustainable economic growth; (2) reducing poverty and regional disparities; (3) environmental conservation and disaster prevention measures; and (4) human resources development and institutional

building. The current ODA loans fall into these priority areas.

2. Project Description

(1) Arterial Road Links Development Project (VI)

Roads are the most widely used means of transportation in the Philippines, accounting for around 90% of passenger travel and 50% of goods transportation. As intensive investment in the extension of national highways and secondary highways, which are the basis of the road network, was first carried out only up to the beginning of the 1980s, the serviceability and quality of roads has become a problem. Specifically, there are many unpaved roads (the rate of paved roads is 21% of total roads as of 2000) and the national road network is, thus, not serving adequately as transport infrastructure. In addition, damage by natural disasters and the lack of alternative routes at a time of emergency often reduce transportation efficiency. Therefore, a safe and efficient arterial road network should be developed urgently to facilitate the domestic transportation of people and freight and thereby invigorate regional economies.

This project consists of two sub-projects: (1) Philippines-Japan Friendship Highway (Visayas Section), (a) Allen-Calbayog-Calbiga section on Samar Island, and (b) the Agas-Agas Bridge on Leyte Island (connecting Tacloban-Liloan); and (2) the Cebu North Coastal Road on Cebu Island. By developing several sections of major arterial national highway that are currently in very poor condition, the project aims to boost the efficiency and lower the costs of transporting passengers and goods on those sections, and in turn, promote the development of the regional economies.

The proceeds of the loan will be used for civil works and consulting services (review of detailed design, procurement support, and environment monitoring, etc.) relating to Philippines-Japan Friendship Highway (Visayas Section), and consulting services (support for implementation of route selection studies and environmental impact assessment, detailed design, etc.) relating to the Cebu North Coastal Road.

The executing agency is the Department of Public Works and Highways (DPWH), Bonifacio Drive, Port Area, Manila, Philippines (Phone: 63-2-304-3804, Fax: 63-2-304-3805).

(2) New Communications, Navigation and Surveillance/Air Traffic Management (CNS/ATM) Systems Development Project

Although air transportation currently plays a comparatively minor role in overall domestic transportation in the Philippines, air traffic volume is steadily growing (at an annual average 4.7% for passengers over the period 1991 - 1998 and 12.5% for cargos over the same period). Considering its advantage in view of speed, regularity, and comfort, air transportation is recognized as a necessary condition for economic development. In the Philippines, which consists of more than 7,000 islands, air transportation is expected to play an increasingly important role carrying passengers and freight as the economy grows and incomes rise. Up to now, the Japan Bank for International Cooperation has supported the development of international and hub airports and air navigation facilities in Philippine aviation sector. These projects are also in priority areas for support in the Bank's Strategy for Overseas Economic Cooperation Operations.

In the area of aviation safety, the Philippine government has worked to modernize facilities for some time, but such facilities have not always met the international standards of the International Civil Aviation Organization (ICAO). In air transportation, safety is the most fundamental requisite. The modernization of aviation safety and communication facilities and the improvement of disaster prevention capability are also identified as policy goals stipulated in the Medium-Term Philippine Development Plan (2001 - 2004). And the ICAO is currently promoting a shift to satellite-based system in the area of air traffic control world-wide by 2010. Shift to the above-mentioned satellite-based aviation safety systems (the new CNS/ATM systems) is one of the policy goals stated in the Medium-Term Philippine Development Plan. In order to improve the safety of the Philippine air transportation, whose demand is expected to increase, up to international standards, it is necessary to promote the development of the new satellite-based air traffic control systems (CNS/ATM) advocated by the ICAO.

This project aims to strengthen and improve the system of communications, navigation and surveillance, and to automate air traffic management (including meteorological system) through developing Philippine-wide new CNS/ATM systems complying with ICAO standards, in order to improve the safety, reliability, and efficiency of the Philippine air traffic systems.

The proceeds of the loan will be used for procurement of facilities (including construction and installation) and consulting services (bidding support, construction supervision, operational and technical support, etc.).

The executing agency is the Air Transportation Office (ATO) of the Department of Transportation and Communications (DOTC) (Address: MIA Road, Pasay City, Philippines, 1300, Phone: 63-2-831-8083, Fax: 63-2-759-2739/833-0096).

(3) Bago River Irrigation System Rehabilitation and Improvement Project

In the Philippines, more than 50% of the population and more than 70% of the poor belong to farming or fishing families in rural areas. Agriculture is an important industry, accounting for around 20% of GDP and hiring about 40% of the labor force. However, from the viewpoint of food supply, the self-sufficiency rate of rice, the staple food, is around 92% on the average over the period 1991 - 2000. With a relatively high rate of population growth (2.36% annual growth rate over the period 1995 - 2000), the country has not achieved self-sufficiency. One factor of the shortage of production is the delay in developing new irrigation facilities. At the same time, deterioration of existing irrigation facilities due to inadequate operation and maintenance is also identified as a serious problem.

In the 70's, Negros Occidental Province which locates in the west of Negros Island in the Visayas region in the central Philippines, was the country's leading area regarding sugar cane production and export. But at the beginning of the 80's, the plunge in international sugar price heavily damaged to the regional economy, which remains depressed. While rice is also a principal product of the region, the shortfall of rice production in relation to its demand (consumption) reached 110,000 tons (as of 1999). Under those circumstances securing a stable food supply and raising farmers' incomes are critical issues for the region.

This project aims to rehabilitate and improve the aged existing Bago River irrigation system in Negros Occidental Province in the west of the island of Negros in the Visayas region. The project will also seek to strengthen irrigators' associations (IAs) for ensure appropriate water management and operational and maintenance of the facilities in order to increase agricultural production and raise the income level of farmers.

The proceeds of the loan will be used for civil works and consulting services (detailed design, bidding support, institutional strengthening, etc.).

The executing agency is the National Irrigation Administration (NIA) (Address: NIA Building, EDSA, Diliman, Quezon City, Philippines, Phone: 63-2-929-6071, Fax: 63-2-926-2846).

(4) Iloilo Flood Control Project (II)

The Philippines is prone to natural disasters because of its geological location and meteorological conditions. About 20 of the approximately 30 typhoons that originate each year over the Pacific Ocean come close to the Philippines, and about 10 of these reach land in that country. Other natural disasters include numerous volcanic eruptions and earthquakes. In addition, partly due to the country's socioeconomic conditions that urban areas have developed in flat low-lying land that is prone to flooding, the Philippines frequently and seriously suffers from flooding and mud sliding during the rainy season. In 1999, damages caused by these disasters amount to about 0.4% of GNP, and the number of people killed exceeds 415 (mainly poor). Such disasters are a serious impediment to socioeconomic development in the Philippines, and strong measures are needed to control floods and mud slides.

Iloilo City is the provincial capital of Iloilo Province on Panay Island in the Visayas region. The country's seventh largest city (with a population of around 370,000), Iloilo is expected to become the center of the economic growth in the West Visayas region. At the same time, because of the topographical characteristics of the City (The City locates in an extensive plain with an elevation of 3 meters above sea level), the city is plagued by recurring flood damage from typhoons and concentrated torrential rain. As recently as November 2001, a major flood affected 37,139 households (about 30% of all the households flooded in the City over the past three years). Accordingly, prevention of flooding is a pressing issue for the city.

This project will improve (embank and excavate) the principal rivers (including the Iloilo and Jaro Rivers) of the Iloilo Province on Panay Island in the Visayas region, and, by implementing flood control works, including the construction of the Jaro Floodway, Iloilo City will be able to withstand the floods of within the 20 year return period. As well as protecting the City from the damage it sustains in frequent floods, the project aims to improve sanitation conditions and the living environment of the people living in this area, and in turn, to contribute to the development of the regional economy.

The proceeds of the loan will be used for civil works and consulting services (procurement support, execution supervision, etc.).

The executing agency is the Department of Public Works and Highways (DPWH) (Address: Bonifacio Drive, Port Area, Manila, Philippines, Phone: 63-2-304-3804, Fax: 63-2-304-3805).

(5) Urgent Bridges Construction Project for Rural Development

In the Philippines, roads provide the principal means of transport, accounting for around 90% of the movement of people and approximately 50% of the transportation of goods. Looking at the current state of roads in the Philippines, the national arterial roads -- the key part of the road network -- and the national secondary roads (roads linking arterial roads with regional cities, towns, and villages) have been relatively well maintained overall on the quantitative (distance) side with investment up to the start of the 1980's concentrated on road extensions. However, many unpaved roads and decrepit simple emergency bridges still remain. Permanent bridges, too, are crumbling, breaking down, and deteriorating due to such factors as inadequate maintenance, the increase in overloaded vehicles and traffic volume, and the effect of natural disasters. With disasters like frequent typhoons prevalent, the road network is also in danger of severance as bridges are washed away or collapse. Because of these factors, the local regions lack a safe and efficient road network. The improvement of qualitative conditions is urgently needed, including the paving of unpaved roads and replacement of emergency bridges with permanent ones. To promote the interchange of people and distribution of goods within the nation and support the development of urban regions, the Philippines urgently requires the development of a safe and efficient arterial road network.

By replacing a total of 201 aged bridges on national roads that lead to urban centers all over the country, this project aims to contribute to safe and efficient distribution, and in turn, support the development of regional economies.

The proceeds of the loan will be used for civil works and consulting services (detailed design, assistance in procurement, etc.).

The executing agency is the Department of Public Works and Highways (DPWH) (Address: Bonifacio Drive, Port Area, Manila, Philippines, Phone: 63-2-304-3804, Fax: 63-2-304-3805).

(6) Improvement of the Marine Disaster Response and Environmental Protection System Project

As the Philippines is an archipelago consisting of over 7,000 islands, it is heavily dependent on marine transport for economic and social activity. Domestic shipping plays a comparatively major role, and services between islands are an important means of transport for the general public. Domestic shipping accounted for around 76% (excluding road transportation) of the domestic passengers and around 46% (including road transportation) of the domestic cargo within the country as of 2000. Also, the waters around the Philippines include major sea-lanes. These connect Europe and the Middle East with the Northeast Asia, including Japan and Korea, via the internationally important Malacca Strait and Singapore Strait. The seas around the Philippines are one of the world's leading maritime convergence zones, navigated by many of the international cargo ships plying for the East Asia (fuel tankers in particular).

Along with the heavy maritime traffic, number of the maritime disasters, including oil spills, are high. The prevention of such incidents and the improvement of response systems are pressing issues. With the large number of shipping operations around the Philippines, an average of 110 shipping disasters were reported annually between 1996 and 2000.1 However, because the Philippines lacks adequate maritime disaster response measures and facilities, a rate of rescue response is mounted to only around 40% of these disasters. Oil spills pose one major risk for a country like the Philippines with its diverse marine resources, but a swift and proper response to the average of ten oil spills reported annually from 1989 to 1998 is extremely difficult because of the lack of appropriate facilities and systems. Considering these circumstances, securing maritime safety, responding to shipping disasters, protecting and maintaining the marine environment, and improvement of responding systems against marine disasters and oil spills are the most important issues of the marine transport sector in the Philippines.

This project aims to contribute to the improvement in the safety of maritime transport, and in turn, contribute to the improvement of the efficiency of maritime transport through the procurement of seven disaster response vessels (multi-purpose response vessels) with oil recovery functions. Through the deployment of these vessels in harbors near waters where most of the marine disasters and pollution incidents occur, the project will help prevent marine disasters and pollution and oil spill incidents in the Philippines, and will strengthen response measures to such disasters and incidents.

The proceeds of the loan will be used for: (1) the procurement of disaster response vessels (multi-purpose response vessels) with oil spill recovery functions; and (2) consulting services (basic design, procurement assistance, training of disaster response ship crews, etc.).

The executing agency is the Department of Transportation and Communications (DOTC) (Address: Colombia Tower, Ortigas Avenue, Mandaluyong City, Philippines, Phone: 63-2-727-7960, Fax: 63-2-727-1703).

1. Reported incidents only. Minor unreported incidents not included.

(7) Northern Luzon Wind Power Project

Caught up in the effects of the Asian currency crisis after July 1997, the Philippines experienced negative real GDP growth in 1998, but in 1999 showed a trend toward recovery. According to the Medium-Term Philippine Development Plan for 2001 - 2004, the economic growth rate is expected to climb from 3.4% in 2001, to 6.3 - 6.9% in 2006. Along with economic growth, demand for power is predicted to grow rapidly. Demand for power will be boosted by such factors as the development of industrial infrastructure, promotion of the IT industry, the spread of consumer electronic products, and expanding rural electrification. Although power plants are planned for the future, a power shortage could arise in 2005 depending on the progress of the plants' construction plan, and securing stable power has become a vital issue for the Philippines.

At the same time, the Philippines is dependent on such imported energies as oil and coal for around 60% of total energy needs, and are aiming to reduce their dependency on imported energies by developing domestically produced alternatives. Specifically, the Philippines is considering developing mainly domestic natural gas resources, but also have high expectations for renewable energies such as wind and geothermal power generation. In view of this, the development of wind power generation -- a renewable energy with little impact on the environment -- would reduce use of fossil fuels and contribute to more stable power supplies and less dependency on imported energy, major issues for the Philippines.

By building about 40-MW capacity wind farm facilities and around 42 kilometers of transmission lines linked to the primary transmission lines near the plant in the north of Luzon Island (Ilocos Norte Province), this project aims to increase power supply and develop domestic energy resources that have a low impact on the environment.

The proceeds of the loan will be used for procurement, civil works and consulting services (reviews of detailed designs, construction supervision, etc.).

The executing agency is the Energy Development Corporation (EDC) of the Philippine National Oil Company (PNOC) (Address: Merritt Road, Fort Bonifacio, Makati City, Philippines, Phone: 63-2-893-1320, Fax: 63-2-815-2747).