

JBIC Signs ODA Loan with Republic of El Salvador

--To Help Develop Efficiency of Distribution--

1. Japan Bank for International Cooperation (JBIC; Governor: Kyosuke Shinozawa) today signed an ODA loan agreement totaling 11,233 million yen for the "La Union Port Development Project" in El Salvador at its head office in Tokyo.
2. The proceeds of the loan will be used to finance civil works, services and consulting services for the development of port facilities, including a terminal, peripheral equipment and access roads at La Union Port (formerly Cutuco Port) located southwest of Fonseca Bay, La Union Province, at the eastern end of El Salvador.
3. In El Salvador, external trade accounted for some 51% of GDP in 1999, whereas in Japan, the figure was 17% in fiscal 1999. The country is thus largely dependent on the trading business, and marine transportation, which is the primary means of distribution and plays an essential role in the economy. However, since Acajutla port, the only international port in El Salvador, faces the open Pacific Ocean and is vulnerable to natural conditions such as sea swells, its cargo handling capacity is constrained, particularly for containers that require quick loading and unloading work. The country therefore has no facility to sufficiently cope with the ever-increasing volume of marine cargo and container shipments despite the global trend toward containerization. In response, the government of El Salvador has placed the top priority on its development plan, the rehabilitation of La Union Port in Fonseca Bay in the easternmost part of the country.
4. The project is expected not only to meet the increasing need for marine transportation and help bolster and improve efficiency of the distribution system in El Salvador; it will also contribute to the alleviation of regional disparities in the country and the promotion of an integrated distribution system in the surrounding Central American economies.

While JBIC conducted an appraisal in December 2000 for this project, it was not subject to the Ex-Ante Project Evaluation Report. (Ex-Ante Project Evaluation Reports on projects for which appraisals were conducted after April 1, 2001 are made available to the public.)

(See Appendix for details.)

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Japan Bank for International Cooperation (JBIC; Governor: Kyosuke Shinozawa) today signed an ODA loan agreement totaling 11,233 million yen for the "La Union Port Development Project" at JBIC's head office in Tokyo. The signing took place between H.E. Ms. María Eugenia Brizuela de Avila, Minister of Foreign Affairs, on behalf of the government of the Republic of El Salvador, and Governor Shinozawa on behalf of JBIC.

1. Loan Amount and Terms

Project Name	Loan Amount (Mil. Yen)	Interest Rate (% per annum)		Repayment Period/ Grace Period (Year)		Procurement	
		Project	Consulting Service	Project	Consulting Service	Project	Consulting Service
La Union Port Development Project	11,233	2.2	0.75*	25/7	40/10	General Untied	Bilateral Tied

* Rate for Special Environmental Projects

2. Profile of the Republic of El Salvador

(1) Overview

The Republic of El Salvador has the third largest population of 6.2 million among the seven Central American countries, whereas its land area is the smallest. It borders on Guatemala in the east and with Honduras in the northwest. Its citizens are known as hardworking people. The country is occasionally called the "Japan of Central America" because of its characteristics and friendliness toward Japan.

(2) Political Situation

Winning independence from Spain in 1821, El Salvador is now a constitutional republic, with the separation of the three governmental branches. The country's head of state is the President. From the 1980s through early 1990, left-wing guerilla activities intensified and escalated into civil war, which killed 75 thousand people and devastated the country. In January 1992, a peace agreement was concluded, and the thorough implementation of this agreement was declared in 1998. The conservative ARENA has been the ruling party since 1989, and the current President Flores, whose term of office is from June 1999 to June 2004, is the third president consecutively coming from this party. While the ARENA administration has consistently pursued the promotion of the peace process and macroeconomic stabilization, it faces further challenges. These are to improve the efficiency of public investment to bridge social disparities that were brought about by the mono-cultural economic structure since the colonial days and to achieve economic growth while involving the El Salvadorian people in the process.

(3) Economic Situation

Since the end of the civil war, El Salvador pursued macroeconomic policies that placed emphasis on strengthening market functions, which paved the way for stable economic growth, and real GDP growth from 1992 to 1995 posted an average of 6%. However, the growth of the economy slowed due to the effects of the Mexican financial crisis in December 1994 followed by natural disasters such as Hurricane Mitch that struck in October 1998 and an earthquake in early 2001. As a result, the real GDP growth from 1996 to 1999 dropped to an average of 3.2%. The economy of El Salvador is driven by the manufacturing industry that is supported by the export processing free zone (Maquila, principal product is clothing), the service industry, and the traditional industries of agriculture and stock raising. These industries accounted for 23%, 20%, and 13% of GDP, respectively. The manufacturing industry shows the most significant growth among these industries, and now accounts for 50% of the country's exports. The economic structure of El Salvador, however, still relies on remittances from overseas workers to cover its trade deficit in the balance of payments. Therefore, the country is strengthening exports by further promoting foreign investment in Maquila, and fostering the development of non-traditional products in the agriculture and stock raising industry. The government has maintained sound foreign debt management, and the debt service ratio (DSR) was at 7.2% in 1997, 10.4% in 1998, and 8.5% in 1999.

The country has achieved reconstruction from the physical damages of the civil war and is now aiming for homogenous economic growth to ensure sustainable peace. Against this backdrop, development of economic and social infrastructure has become an urgent issue, since it will also contribute to alleviating regional disparities in the country.

3. Description of the Project

La Union Port Development Project

(1) Background and Necessity of the Project

El Salvador is undergoing economic reconstruction following the civil war, and its robust growth in international trade is the driving force behind its economic growth. The volume of exported and imported goods from 1995 to 1999 posted annual growth of 11.8% in exports and 9.6% in imports. The main method of transportation for its growing international cargo is marine transportation. However, the only international port in the country is Acajutla port facing the open Pacific Ocean, and the port's cargo handling volume is limited due to adverse natural conditions such as strong sea swells. In particular, there are limitations to the port's container handling capacity, which requires quick loading and unloading work. Due to this situation, while the global shift toward container cargo is accelerating, El Salvador lags behind in building facilities that can handle container cargo. The government of El Salvador formulated the The Study for Port Reactivation in La Union Province in 1997-1998 under the JICA Development Study. The plan is designed to utilize the excellent natural advantages of Fonseca port at the east end of the country and to reconstruct the closed La Union port (former Cutuco port) to satisfy the growing demand in marine cargo. The La Union Port Development Project is positioned as the short-term plan in this master plan. The project is also one of the priority projects in the government's development plan, as the port will contribute to development of the eastern region of the country that is lagging behind in development.

(2) Objective and Brief Description of the Project

The project will newly construct a container terminal and a bulk terminal, and related facilities such as navigation channel and access roads. The project aims to restore La Union port as an international port in order to respond to the growing demand in marine cargo. The project will thus revitalize and improve efficiency in the country's distribution system; alleviate the regional disparities within the country; and promote integration of distribution systems among neighboring Central American countries.

The proceeds of the loan will be used to procure materials and equipment, and services necessary for construction. The loan will also finance consulting services including assistance in procurement, construction supervision, and assistance in implementing environmental conservation measures.

The executing agency is the Comisión Ejecutiva Portuaria Autónoma, CEPA (Address: P.O. Box 2667, Blvd. Los Héroes, Edf. Torre Roble San Salvador, El Salvador; Tel: 503-260-3279 Fax: 503-260-5477 Ext. 312).