

Signing of Japanese ODA Loan with the Republic of the Philippines

Responding to the Global Financial and Economic Crisis and Promoting Sustainable Development through Economic and Fiscal Reform

1. On March 15, Japan International Cooperation Agency (JICA, President: Sadako Ogata) signed a Japanese ODA loan agreement with the government of the Republic of the Philippines to provide up to 23.05 billion yen for the Development Policy Support Program (III) and the Emergency Budget Support Japanese ODA Loan (hereinafter collectively referred to as the "Programs")
2. Since the inauguration of President Arroyo's administration in 2004, the Philippine economy has recorded a high economic growth rate, reaching 7.1 percent in 2007 up from 6.4 percent in 2004, while the fiscal deficit has improved greatly to 0.2 percent of the gross domestic product as compared to 3.8 percent in 2004. Since 2008, however, soaring food and oil prices as well as the global financial and economic crisis have caused the economic growth rate to tumble back to 3.8 percent in 2008 and then to 0.9 percent in 2009. The Philippine government is endeavoring to maintain the nation's economic growth by expanding social services and implementing programs to create employment in addition to relaxing the monetary policy. They have also implemented economic stimulus measures such as using an expansionary fiscal policy to fast-track procurement and spending on infrastructure projects among other activities. Assistance is required to support the Philippine government in these efforts.
3. To bring the Philippine economy back on course toward mid- to long-term growth while coping with the financial and economic crisis, it is necessary to continue working to achieve the fiscal sustainability by expanding revenues, streamlining expenditures, strengthening the administration's governance, and further improving the investment environment and infrastructures. As over one third of the population live in poverty, expanding the support system to include these people is an important issue. To address these issues, the Philippine government has set targets for improvements in policies, institutions and government organization to implement reforms in the following areas:
 - 1) Macroeconomic and fiscal stability,
 - 2) Improved governance for public expenditure management and anti-corruption measures,
 - 3) Improved investment climate and infrastructure, and
 - 4) Social development. The reforms supported through this loan such as scaling up of the conditional cash transfer program are now even more important for alleviating the effects that the global economic crisis has on society and the economy of the Philippines.
4. To assist the Philippine government with these reforms and the global financial and economic crisis, Japan has decided to implement the Development Policy Support Program (III) and the Emergency Budget Support Japanese ODA Loan.
5. The Japan-Philippines Economic Partnership Agreement (JPEPA) took effect in December 2008, increasing the focus on strengthening economic ties between the two countries. Given these circumstances, JICA formulated the Development Policy Support Program (III), taking into account the views and suggestions of Japanese affiliated parties including the Japanese Chamber of Commerce and Industry of the Philippines. It is expected that this assistance will contribute to the further improvement of the investment climate for the private sector—which includes Japanese companies—by such favorable measures as improving the tax refund procedure, strengthening and simplifying customs services and procedures, ratifying the Revised Kyoto Protocol, and establishing a system for partnerships between government and the private sector.
6. Emergency Budget Support Japanese ODA Loan is a part of the fiscal assistance announced by Japan at the London Summit in April 2009 to encourage economic stimulus measures by nations having difficulty implementing the tax reductions and other economic measures necessary to expand domestic demand due to the global financial and economic crisis. The Philippines has a close relationship to Japan—as evidenced by the JPEPA—and will be the third nation after Vietnam and Indonesia to receive this support, which will promote economic revitalization there.
7. With the object of strengthening the capacity of the Philippine government to manage debt, JICA has provided a technical assistance project to strengthen the capacity to manage assets and debts of the power and urban railway sectors. Furthermore, to foster an investment climate, JICA has dispatched policy advisors to the Bureau of Customs and provided technical cooperation toward building a customs data system. These technical cooperation projects have been a part of JICA support for the economic and fiscal policies of the Philippines. By combining the various assistance schemes, JICA aims not only to produce a synergetic effect of these Programs but also to bring about sustainable economic growth in the Philippines.
8. The Development Policy Support Program (III), co-financed with the Asian Development Bank, will support the development policy in the Philippines. The total amount of support funds when combined with the Asian Development Bank's \$250 million is \$350 million.

(Reference)

Reference

1. Term and Amount of Loan

Project Name	Amount (Mil. Yen)	Interest Rate (% per annum)	Repayment Period /Grace Period (years)	Procurement
Development Policy Support Program (III)	9,220	1.4	30/10	Untied
Emergency Budget Support Japanese ODA Loan	13,830	Yen LIBOR (six months)*	15/3*	Untied

* An emergency fiscal assistance Japanese ODA loan as announced by Japan at the April 2009 London Summit whose purpose is to support Asian nations in promptly responding to the effects of the current crisis while promoting growth potential and domestic demand.

2. Executing Agency

Philippine Department of Finance

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3. Planned Implementation Schedule

- (i) Completion of the Programs: March 2010, with completion of the loan disbursement
- (ii) International competitive bidding will not take place for consultant hiring and project construction.