

The Philippines

Contribution of Infrastructure to Economic Growth and Poverty Reduction

External Evaluator: Global Group 21 Japan Inc.

Field Survey:
September-November 2003

Outline and Objectives

Metro Cebu is the second largest metropolitan area in the Philippines (with a population of 1.7 million, comparable to the population of Kobe which is 1.5 million) where ODA loan projects worth over 100 billion yen have been implemented since the 1970s. This time, a comprehensive ex-post evaluation was made on some projects in Metro Cebu. The development process of Metro Cebu was divided into 3 cycles and evaluated based on the idea of an "Urban development model". "Urban development model" is a framework for analyzing the process of urban development and economic growth in which 1) the central and local governments drew up a comprehensive development plan, 2) aid institutions including JBIC provided support for the central and local governments to facilitate implementation of infrastructure projects listed in the development plan, 3) being attracted by the developed infrastructure, private funds were invested and 4) economic growth and poverty reduction were promoted in the project area with comprehensive support from the central and local governments.

*See the full version report for the list of 11 ODA loan projects subject to this evaluation

Evaluation Result

1 First Cycle (1978-86)

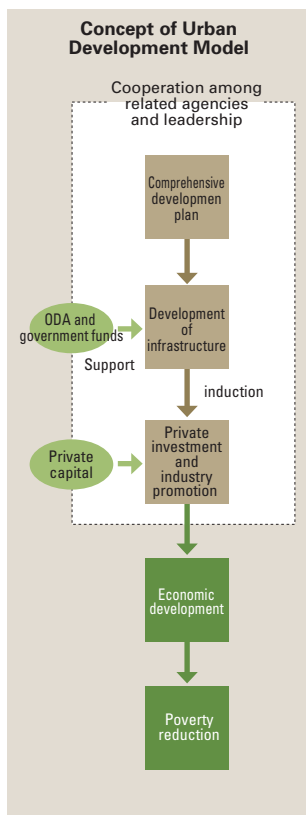
~Decentralization from Metro Manila under the Marcos Administration~

In the 1970s, the population of the Philippines excessively concentrated in Metro Manila, while in the local regions it was difficult to secure opportunities to earn a stable income. The government came up with a development plan aimed at establishing bases for regional growth and promoting decentralization of population and industry from Metro Manila to the local regions. In Metro Cebu, Mactan Economic Zone Development Project, Port Cargo Handling Equipment Expansion Project (1), etc. were implemented for the purpose of building a base for growth. However, as the economy of the country was sluggish in the first half of the 1980s affected by the assassination of former senator Aquino as well as a financial crisis, only 6 companies moved into the Economic Zone (as of 1986). Therefore, the achievement level of the target set in the development plan, which was to establish bases for regional development, was low.

2 Second Cycle (1987-2003)

~After the start of the Aquino Administration, infrastructure development for sustainable growth was promoted~

In the second cycle, too, infrastructure such as the airport, power supply facilities, roads, bridges, and landfill sites were constructed under the plan to address infrastructure shortage for the sustainable growth in the regions. For example, the Second Mandaue-Mactan Bridge (4 lanes) connecting Cebu Island and Mactan Island, where the international airport and the economic zone are located, contributes to easing traffic congestion that used to occur when



the First Mandaue-Mactan Bridge (2 lanes) was the only route connecting the two islands. In the Metro Cebu Development Project (1) (2), linking of the central trunk road, expansion of road width and construction of landfill sites were implemented and, as a result, convenience for citizens was enhanced through alleviation of traffic congestion, reduction in traveling time, and improvement in safety. The Metro Cebu Development Project (3) is expected to provide the basis for growth for the third cycle, through the construction of the south coastal road and reclamation.

During this period, many Japanese companies expanded into Asian countries because of the need for cost reduction in Japan and the impact of yen appreciation. In the Philippines, too, direct investment by foreign companies sharply increased, and investment in local industries also increased. In addition, with the political situation stabilizing after transition to the Ramos Administration from the Aquino Administration, which was formed in the wake of the collapse of the Marcos regime, the Philippine economy steadily grew from 1992 until the Asian currency crisis in 1997.

As the fruits of steady economic growth were widely distributed among poor people, the poverty indicators of Central Visayas, where 60% of the population lives in Metro Cebu, have substantially improved. Although the Asian currency crisis in 1997 had less direct impact on the economy of Metro Cebu - with the economic zone at its center - than on other Asian countries, it indirectly caused migrant workers abroad and those in Metro Manila to lose jobs, and triggered population return to regional cities including Metro Cebu. Also, other factors such as the income gap between urban and rural areas and the decline in agricultural production due to the El Nino effect caused many people to move to Metro Cebu, which was enjoying economic growth, from nearby rural areas and neighboring provinces as well as Mindanao. As a result, the population of poor increased.

3 Third Cycle (2004-)

~Future growth and decentralization from Metro Cebu~

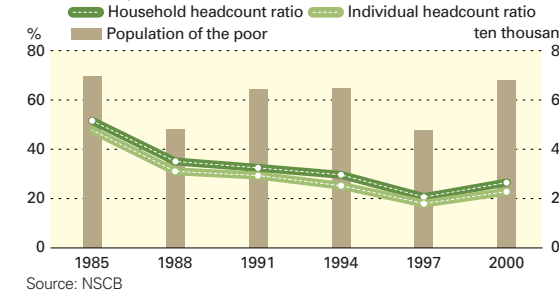
At present, construction of the roads that connect Metro Cebu to neighboring areas is under way with a view to facilitating decentralization of growth. In the medium to long term, decentralization of growth is expected to slow the population influx into Metro Cebu and improve the urban poverty issue.

Problems to be Solved and Recommendations

In order for Metro Cebu to secure a more favorable position than other bases for growth in the Philippines and other Asian countries and for further economic development, further improvement is necessary for infrastructure such as electricity, water, and sewage, which are the bottleneck for production activities in the economic zone. At the same time, it is important to facilitate cooperation between the resident companies of the economic zone and local companies by easing regulations for the economic zone and enhancing awareness of local companies for quality and the time of delivery. From the viewpoint of reducing poverty, it is necessary to halt massive population influx from rural areas to Metro Cebu, and decentralize growth by improving infrastructure in surrounding areas. In dealing with these issues common to local governments, they are advised to establish a cross-governmental organization to enhance implementing and managing capacity.

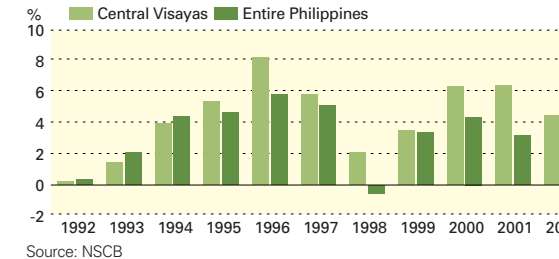
Poverty Condition in Urban Areas in Central Visayas (1985-2000)

Poverty indicators continued improving until 1997 and then turned downward due to influx of poor people from other regions caused by the Asian currency crisis



Economic Growth Rate in the Entire Philippines and Central Visayas

Except for the year of 1998 when the impact of the Asian currency crisis (1997) surfaced, the economy of Central Visayas with Metro Cebu playing a central role has been steadily growing.



South Bus Terminal was constructed in 1992. The number of bus services was increased from 205 in 1988 to 250 in 1993 and to 335 in 2001. An average of about 15,000 passengers use Bus Terminal per day.



Before the Second Mandaue-Mactan Bridge was constructed, it took over one hour from the center of Cebu city to the airport on Mactan Island even in off-peak times and sometimes it took over 2 hours in peak times. Since the completion of the new bridge, the traveling time has been reduced considerably.



As of 1986, there were only 6 resident companies in the Mactan Economic Zone. In the 1990s when Japanese companies expanded into Asian countries because of the need for cost reduction in Japan and the impact of yen appreciation, resident companies began to increase to exceed 140 companies in 2002. (Photo: CIPC)