

October 26, 2012

**Comments from Japan on the Approval by Mail: CTF Philippines: Cebu Bus Rapid Transit Project (IBRD)**

Dear Patricia,

Please see the attached comments from JICA on the Philippines CTF project.

Thank you so much and regards,

Asako Kobayashi, Ministry of Finance Japan

Comments on CTF loan to Cebu Bus Rapid Transit Project

Japan International Cooperation Agency

**1. General comments**

Since traffic congestion in Cebu city is severe, mass transit system is really needed. In this sense, the proposed BRT project could be a good option to improve its traffic condition.

With reference to JICA projects, the proposed BRT route covers South Road Property (SRP) area which was funded by JICA. Therefore it is expected that the proposed BRT Project could bring good effects to the SRP.

**2. Necessity of CTF loan in this project**

Although the project necessity is clear, the necessity of CTF loan in this project is not necessarily clear. As mentioned in Page 20, "once constructed, the BRT system is expected to be financially sustainable over its operating life". Although Financial Internal Rate of Return (FIRR) is not included in the document, it says that expected total revenue 881.6 million PHP and expected total recurring costs are 854.5 million PHP, so it can earn 27.1 million PHP already at opening year of 2015. Based on this information, financial viability of this project is considered high. CTF financing terms for this project is set as 0.75% service charge, maturity of 20 years including 10 year grace period. The justification of this concessional CTF loan to improve the project's financial viability is not clear.

It is understood that CTF is designed to be used for the project which has low financial viability but significant benefit as climate change mitigation. Since the funding of CTF is limited, it is advised that the applicability of CTF to the proposed project is duly

examined (the BRT project could be viable without CTF contribution as mentioned in Page 21).

### **3. Careful attention to existing jeepney operators and motorcycles**

As pointed out in Page 18, it is expected that resistance from current jeepney operators and motorcycle drivers could be a strong obstacle to the project. Also, after the project is completed, it is foreseen that jeepney operators would increasingly apply license to operate in newly established BRT related routes. Therefore it is advisable to make sure that LTFRB (Land Transportation Franchising and Regulatory Board) will not issue any additional licenses to jeepney operators. It would be necessary to introduce strong regulatory enforcement in order to make the Project successful.

Also, it is expected that, as a result of introducing BRT, numbers of jeepneys and motorcycles would be reduced to optimal level. Therefore, it is advisable to consider training program for jeepney and motorcycles operators/drivers so that they could be transferred to other business activities.

In addition, the local election will be held in May, 2013. DOTC and the World Bank should minimize the effect of election with regard to this project.