



ADB

News Release

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ADB FUNDS GET-TOUGH PLAN TO CLEAN UP MANILA AIR

Stricter emission standards and stiffer penalties for polluters are key parts of a get-tough Philippines government program to clean up Manila's air for which the Asian Development Bank today approved loans totaling nearly US\$300 million.

This is the first ADB-backed clean-air project on such an ambitious scale – to be carried out in a city of 20 million people where air pollution from traffic and industry has reached alarming levels and poses severe health hazards, especially for children and the elderly. Studies confirm that air pollution inhibits the mental development of children, gives rise to a host of respiratory ailments and is a major cause of premature death.

The vital element of the Metro Manila Air Quality Improvement Sector Development Program is the emphasis on enforcement. The program advocates tougher penalties for offenders under new legislation and is bringing in the private sector to monitor and enforce the program efficiently. Information technology will also be used in the battle against pollution in the form of a computerized system linking enforcement centers, the police and other implementing agencies.

The program has four major components. The first is a US\$200 million loan to support policy reforms to raise pollution standards for vehicles and industries and to strengthen the monitoring and enforcement capability of the institutions responsible for air quality management.

Another major component is a US\$71 million loan to tackle the major cause of pollution – vehicular emissions. Manila's 3.2 million registered vehicles spew out high concentrations of dangerous fumes containing lead, sulfur and total suspended particulates. The worst offenders are diesel-driven vehicles, which make up over 40 percent of traffic, especially buses and "jeepneys", the elongated jeeps that are a favored form of transport unique to the Philippines.

The loan will improve traffic planning, rehabilitate roads to ease chronic congestion and ensure better monitoring and enforcement. The key component is a motor vehicle inspection system to be carried out by the private sector under the Land Transportation Office (LTO). Stricter emission standards will be in force from the beginning of 2000. The vehicle inspections will be carried out at 60 stations nationwide, 40 percent of them in Manila. The system will be introduced in Manila by mid 2000 and extended to the rest of the country the following year.

Asian Development Bank

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To enforce the regulations, antismoke-belching operations will be carried out in the streets by expanded private sector teams armed with better equipment. The project will also provide a computerized national vehicle database shared by the LTO's enforcement centers, the police and the Metropolitan Manila Development Authority.

A drive to use cleaner fuels is another important aspect of the program. The quality of diesel in the Philippines is poor as it has a high sulfur content. Although subsidies for diesel have been removed, the tax on diesel remains low and demand for diesel continues to be distorted. The program urges a review of the current policy and the ADB is providing a technical assistance grant of US\$1.5 million to assess the advantages and disadvantages of using alternative fuels, focusing on public transport vehicles.

A final part of the program is a US\$25 million loan to establish an air pollution control facility – a fund which industries, commercial establishments and public transport companies can tap to buy and install equipment to reduce emissions. This facility will be run by the government-owned Land Bank of the Philippines. A study, financed by the United States Trade Development Agency, has identified 50 major polluters in the Metro Manila air shed. These firms allowed studies on how to lower emissions to acceptable levels. The agency has agreed to finance another study to examine another 100 polluting firms in the capital region.

The Department of Environment and Natural Resources and the Laguna Lake Development Authority, which are responsible for managing pollution sources, will be improved in terms of monitoring and enforcement capability. Measurement and analysis of pollution levels will be contracted out to private firms and laboratories and an emission database will be established.

Importantly, the Government has agreed to stiffen the penalties for non-compliance and include them in a draft Clean Air Act. Currently, the maximum fine for polluters is a paltry P5, 000 (US\$125) a day regardless of the size of the facility.

The ADB loans will be from the Bank's ordinary capital resources with repayments varying from 15 to 24 years and interest rates determined by the Bank's systems for US dollar loans. Other financing will be provided by the Government, the Swedish International Development Corporation and possibly the Overseas Economic Cooperation Fund of Japan.

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PROJECT INFORMATION SHEET

The following provides suppliers, contractors, consultants, and others with general information about the Project. Detailed information may be obtained from the Executing Agency indicated below. Particulars given with respect of “consultants” and “procurement” are based on present project planning and may change in the course of project implementation.

Project Name Metro Manila Air Quality Improvement Sector
Development Program

Borrower Republic of the Philippines

The Sector Development Program

**Objectives and
Scope**

The objective of the Program is to promote policy reforms to improve air quality through the abatement of mobile and stationary sources of air pollution. It focuses on the Metro Manila air shed, the location of the main concentrations of air pollution. The scope consists of policy reforms and investment requirements integrated within an agreed policy matrix termed the Air Quality Action Plan. The components consist of a motor vehicle inspection system, an industrial air emissions pollution abatement program, production of clean fuels, introduction of antipollution devices such as catalytic converters, a traffic management and road rehabilitation program, ambient air quality monitoring, raising public awareness, capacity building, and institutional development.

**Policy Framework
and Actions**

The agreed policy matrix is designed to tackle nine key air emission issues: (i) mitigate air pollution from mobile sources; (ii) mitigate air pollution from stationary sources; (iii) improve fuel quality; (iv) reduce emissions from vehicular use; (v) reduce traffic congestion and improve traffic flow; (vi) strengthen ambient air quality monitoring, evaluation, and reporting; (vii) intensify public awareness; (viii) monitor coordination and implementation of the policy matrix; and (ix) strengthen the capacity of the institutions involved.

Capacity Building

Strengthening the institutional capacity of all agencies involved in implementation of the policy matrix will require a substantial amount of effort, at both national and local-level institutions. Staffing and budgetary resources of most institutions responsible for air quality management are limited and insufficient for them to fulfill their mandates. There is also a general lack of qualified staff to undertake the required tasks, and in most agencies, training programs are constrained due to a lack of resources.

The Investment

There are two investment projects. One will establish an air

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pollution control facility to fund pollution control and monitoring equipment for industries and commercial establishments, and replacement of worn engines on public transport vehicles. The second will support public sector investments for traffic engineering and management, traffic enforcement capacity, training in traffic planning and management, road rehabilitation, ambient air quality monitoring facilities, antismoke-belching programs, capacity building and institutional development, training for air quality management, and consulting services.

Social and Environmental Measure

A preliminary social assessment indicated that none of the Program elements are expected to have a significant adverse impact on the poor. As a result there is no need to introduce special measures to protect the poor or other vulnerable groups which are expected to benefit from the Program.

The Policy Loan

Loan Amount and Terms

The Bank will provide a loan of \$200 million from its ordinary capital resources to support the necessary policy reforms. The Borrower will be the Republic of the Philippines. The loan will have a maturity of 15 years, including a grace period of 3 years, with interest determined in accordance with the Bank's pool-based variable lending rate system for US dollar loans and a commitment charge of 0.75 percent per annum.

Cofinancing

The Overseas Economic Cooperation Fund of Japan has indicated possible cofinancing for the Program with a tentative amount of \$170 million equivalent.

Program Period and Tranching

The Program Period is three years from the date of loan effectiveness. The loan will be disbursed in two equal tranches. The first tranche will be made available upon loan effectiveness. The second tranche is anticipated to be released within 18 months of the effective date, subject to fulfillment of the conditions for its release.

Executing Agency

Department of Environment and Natural Resources.

Procurement

The proceeds of the loan will be used to finance the foreign exchange costs of items produced and procured in member countries of the Bank excluding items on a negative list, and imports financed by other bilateral and multilateral funding agencies.

Counterpart Funds

The counterpart funds to be generated from the proceeds of the loan will be used by the Government to implement the agreed policy reforms. Any remaining funds will be used, first, to finance local currency costs of other Bank-financed projects, and, second, for general development purposes.

The Air Pollution Control Facility

Loan Amount and Terms

The Bank will provide a loan of \$25 million from its ordinary capital resources to establish an air pollution control facility. The Borrower will be the Land Bank of the Philippines. The loan will have a maturity of 15 years, including a grace period of 4 years with interest determined in accordance with the Bank's market-based loan facility for floating rate US dollar loans. A commitment charge of 0.75 percent per annum will be applied 60 days after loan signing on increased portions of the loan less amounts withdrawn from time to time.

Relending

The loan proceeds will be relent to subborrowers for the purpose of mitigating air pollution emissions. In addition to demonstrating the environmental impact, subprojects will demonstrate a debt-equity ratio of at least 75:25 and a debt-service ratio of at least 1.25 times over the loan term. Subprojects that generate significant cash flow should have a financial internal rate of return at least equal to the cost of capital. All subloans will be on commercial terms at market rates with a repayment period not exceeding seven years. The maximum subloan size will not exceed \$5 million and the free limit is \$1.5 million.

Executing Agency

Land Bank of the Philippines.

Procurement and Consulting Services

The Bank's *Guidelines for Procurement* applicable to loans to development finance institutions will be followed.

Time Frame

Commitments for subprojects will be completed within a four-year period from loan effectivity.

The Investment Loan

Loan Amount and Terms

The Bank will provide a loan of \$71 million from its ordinary capital resources to finance part of the foreign exchange and local currency costs of the investment component of the Program that are to be borne by the public sector. The Borrower will be the Republic of the Philippines. The loan will have a maturity of 24 years, including a grace period of 4 years, with interest determined in accordance with the Bank's pool-based variable lending rate system for US dollar loans and a commitment charge of 0.75 percent per annum.

Cofinancing

The Swedish International Development Cooperation Agency has agreed to provide a mixed credit for SKr35 million (about \$4.5 million equivalent) and a TA grant of SKr4.75 million (about \$600,000 equivalent) to support training for ambient air quality monitoring and air dispersion modeling. The United States Trade Development Agency is providing 2 TA grants totaling \$890,000. One

will assist in the development of point source monitoring programs as well as marketing of the air pollution control facility. The other will assist in developing the motor vehicle inspection system.

Implementation Arrangements and Executing Agencies

The Department of Environment and Natural Resources will be the Executing Agency for air quality monitoring and evaluation, the public awareness program, capacity building and institutional strengthening, and overall coordination; the Department of Public Works and Highways, for design and construction of the road rehabilitation program; the Metro Manila Development Authority for traffic engineering, management, and enforcement, and the antismoke belching program; the Department of Health for the public health monitoring program; and the Department of Transport and Communications, through the Land Transportation Office, for implementing the motor vehicle inspection system program.

Procurement and Consulting Services

Contracts for civil works estimated to exceed \$3.0 million and contracts for equipment and supplies estimated to exceed \$0.5 million will be awarded on the basis of international competitive bidding as described by the Bank's *Guidelines for Procurement*. Contracts of lower value will be procured on the basis of local competitive bidding or international shopping, and contracts of \$100,000 or less in accordance with procedures acceptable to the Bank.

Time Frame

The investment component of the Program will be implemented over four years with completion expected by 30 June 2003.

Technical Assistance

A TA grant, for \$1,500,000 equivalent will be provided from the Bank-funded TA Program to undertake air emission policy studies and strengthen the Government's capability and capacity to address a range of air emission policies.

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