

ODA Loan to the Philippines Based on the New Miyazawa Initiative - Supporting Air Quality Improvement in Metro Manila -

OECD (The Overseas Economic Corporation Fund, Japan: President, Chairman of the Board: Mr. Kyosuke Shinozawa) has decided to provide a loan to the Republic of the Philippines for the "Metro Manila Air Quality Improvement Sector Development Program" for up to 36.3 billion yen, and signed the loan agreement on March 10, 1999.

The loan agreement was signed at Metro Manila, the Philippines by Mr. Hiroshi Tanaka, Chief Representative, Manila Office, OECD and H.E. Mr. Edgardo B. Espiritu, Secretary, Department of Finance, the Republic of the Philippines.

The cumulative total of ODA loan commitments to the Philippines now stands at 1.6087 trillion yen with 223 projects.

The loan approved this time to the Philippines, which faces economic difficulties due to the current currency crisis, aims to support the efforts of the Philippine government working to solve serious environmental problems, as well as to support economic reform efforts by the Philippine government. Moreover, this loan is a part of the financial assistance (total amount: US\$1.4 billion) indicated to the Philippines at the time of the Asia-Europe Meeting (ASEM) in January this year under "A New Initiative to Overcome the Asian Currency Crisis -New Miyazawa Initiative-" announced in October 1998.

The amount, terms and conditions of the loan are as follows.

1. Amount Terms and Conditions

Project Name	Amount (Mil. Yen)	Interest Rate (% p.a.)	Repayment Period /Grace Period (years)	Tying Status
Metro Manila Air Quality Improvement Sector Development Program	36,300	0.75*	40/10	General Untied

* Special Environmental Projects

2. Loan Description

Metro Manila Air Quality Improvement Sector Development Program

(1) Program Background and Necessity

The Philippine economy has shown significant growth from the beginning of the 1990s until 1997. However, because of the currency crisis, the market interest rate and the price of imported goods including capital goods have soared, which resulted in sluggish investments. Under such circumstances and aggravated by the poor performance of agriculture sector as production of major crops declined due to the El Nino phenomenon, the 1998 GDP growth rate contracted to negative 0.5 percent.

Moreover, while a fiscal surplus was maintained for 4 consecutive years since 1994, a fiscal deficit was recorded in 1998 due to a decline in tax revenues, as well as increased external debt payments caused by the peso depreciation.

On the other hand, because of the significant depreciation of the peso and considerable decrease in imports, the country's balance of payments position posted improvements.

The improved trade position, together with a positive service balance was transferred to a better current account balance. Nevertheless, since the inflow of capital, especially short-term portfolio investments, shrunk due to currency crisis, the Philippine Government aims to expand its foreign currency reserves through international bond flotation as well as assistance from donors.

In recent years, the Philippines has been confronted by a number of environmental issues resulting from population increase and economic growth. Particularly prominent among these has been the aggravation of air pollution in the Metro Manila and surrounding area. The main sources of pollution in the Metro Manila area are: (i) exhaust gas from automobiles; (ii) exhaust gas resulting from industrial activities; and (iii) the combustion of fuels at power plants, with exhaust gas from automobiles being the major reasons. This problem is caused by the increase in car ownership in Metro Manila, which has led to chronic traffic congestion, increasing fuel consumption, and rising amounts of exhausted pollutants. The pollution problem is exacerbated by a number of factors including the fact that diesel engines (buses, jeepneys), which release greater amounts of pollutants, are used in large numbers, the fact that the motor vehicle inspection system is inadequate, and that leaded gasoline is still used.

As a result, total suspended particulates (TSP), particulates under 10 microns (PM10), lead and other pollutants in the Metro Manila atmosphere greatly exceeded the Philippines' environmental standards, which are based on those of the World Health Organization (WHO). Consequently, 80% of the Metro Manila population is exposed to pollution that exceeds the national environment standards. Because of that, a number of health problems among residents has emerged, including a high rate of respiratory diseases among outdoor workers, and higher than standard levels of lead concentrations in the blood of street children.

In order to solve this problem, the Philippine government has introduced Clean Air Act in Parliament that proposes a general framework for controlling air pollution. With the support of the Asian Development Bank (ADB), the Philippine government has also prepared an Air Quality Action Plan (AQAP). Concretely, AQAP includes revision of the motor vehicle inspection system, the promotion of unleaded gasoline, compulsory use of catalytic converters, and closure of obsolete oil-fired power stations. With the AQAP, levels of lead, TSP, PM10, SO2, CO, O3, and NOx will be reduced, and better health and welfare for Metro Manila residents will be expected.

(2) Program Description

Under the Philippines economic and environmental situations described above, the Metro Manila Air Quality Improvement Sector Development Program aims to reduce the vulnerability of the Philippines international payment position experiencing through the currency crisis, as well as to support its progressive efforts for implementation of AQAP. The funds of the Program will be allocated for general import settlement to improve the Philippines international reserve position. At the time of providing funds, however, AQAP progress will be monitored in order to secure the promotion of AQAP.

The program is implemented on a co-financing basis with ADB.

The executing agency is the Department of Environment and Natural Resources: DENR. (Address: Visayas Avenue, Diliman, Quezon City, Philippines, Tel: 63-2-929-6626, Fax: 63-2-927-6755)