

The Philippines

Local Government Units Support Credit Program

External Evaluator: Izumi Ogata, KRI International Corporation

Field Survey: November 2007

1. Project Profile and Japan's ODA Loan



Map of Project Area:
Entire area of the Philippines



Examples of Implemented Sub-projects
(clockwise from top right) Trash collection site at public market, waste collection truck purchased by sub-project, Land Bank, water tower, beneficiary.

1.1 Background

As a result of the 1991 Local Government Unit Law, some of the public services which had formerly been provided by the central government (water and sewerage, sanitation, public health and healthcare, waste disposal, environmental conservation, and housing supply, etc.) were transferred to local government units (LGUs). In conjunction, the Internal Revenue Allotment (IRA) and the local tax collection system were adjusted. However, the LGUs' tax base was inadequate and there was no mechanism to procure funds as required in accordance with each LGU's fiscal condition and services to be provided. The structure was such that the LGUs were forced to rely on IRA for the majority of their annual revenue. Given these conditions, a means of fund procurement was needed, such as introduction of a system for borrowing through policy finance, so that the LGUs could implement public services within the scope of the existing revenue, until the time when the local finances are improved by the strengthening of the macro-economy.

1.2 Objective

The objective is to promote support for the social infrastructure development sector, including the environment, public health, and housing, where it is difficult to recover costs, by diversifying the means of fund procurement through offering low-interest,

long-term funds to LGUs with a high to moderate level¹ of creditworthiness, and thereby contribute to promotion of decentralization of power and improvement of the lives of the people.

1.3 Borrower/Executing Agency

Borrower: Republic of the Philippines

Executing Agency: Land Bank of the Philippines (LBP)

1.4 Outline of Loan Agreement

Loan Amount / Loan Disbursed Amount	6,072 million yen/ 6,069 million yen
Exchange of Notes / Loan Agreement	September 1998/September 1998
Terms and Conditions	
-Interest Rate	<ul style="list-style-type: none"> - Sub-loans for afforestation and sewerage/waste disposal facilities as well as consulting services: 0.75% - Sub-loans for water supply facilities and flood control/sanitation facilities: 1.7% - Other loans: 2.2 %
-Repayment Period (Grace Period)	<ul style="list-style-type: none"> - Sub-loans for afforestation and sewerage/waste disposal facilities as well as consulting services: 40 years (10 years) - Other sub-loans: 30 years (10 years)
-Procurement	<ul style="list-style-type: none"> - Sub-loans: General untied - Consulting services: Partially untied
Final Disbursement Date	January 2006
Main Contractors	-
Consulting Services	Engineering and Development Corp. of the Philippines (EDCOP) (Philippines)
Feasibility Study, etc.	1996 F/S by the Government of the Philippines

2. Evaluation Result (Overall Evaluation: A)

2.1 Relevance (Rating: a)

¹ The creditworthiness of LGUs is evaluated using the executing agency's creditworthiness rating system, which rates the LGUs' fiscal condition, IRA allocation, existence of other loans, and repayment status. One of five ratings is assigned, top level, high level, moderately high level, moderate level, or low level, depending on the fiscal strength (including annual revenue, fund management system, political situation (leadership, existence of internal conflict, etc.)), GRDP, and main industries, etc.

The implementation of this project was consistent with the national plan at the time of the appraisal and the ex-post evaluation, and so the relevance of the project implementation was extremely high.

2.1.1 Relevance of plan at time of appraisal

Support for the development of LGUs' capabilities as well as the sectors for which responsibility was transferred to LGUs, namely water, sewerage, and sanitation, public health and healthcare, waste disposal, environmental conservation, and housing supply, were positioned as priority policies in the medium-term development plan (1993-1998).

Moreover, there was a strong need for implementation of this project, which promoted diversification of means to procure funds through policy finance, given that the LGUs' tax base was inadequate, so that LGUs could promote public services in keeping with the priority policies mandated by the government.

2.1.2 Relevance of plan at the time of ex-post evaluation

(1) Consistency with policy and measure needs

The medium-term development plan (2004-2010) aims to conquer poverty, and it positions promotion of local development through decentralization of power as one of the most important issues. This project supports the establishment of social justice with particular emphasis on the regional areas, and through that, support for poverty reduction. So, this project currently continues to maintain consistency with the policy needs.

The sectors for the sub-loan project are mentioned in the same medium-term development plan as a continuously important part of policy. In order to actualize the policy, improvement of LGUs' finances and development of LGUs' capabilities are priority issues.

Furthermore, as a policy of the executing agency, LBP, financing for LGUs makes up 21% (2006)² of the portfolio and is given more importance compared with other priority sectors, such as small and medium company promotion (16%), small-scale fishing support (14%) and agribusiness (12%) . So, this project is also consistent with the policy of the executing agency, which regards collaboration with LGUs and strengthening of LGUs as important.

² Source: Land Bank of the Philippines (LBP) (2006). The itemization of financing for LGUs is (1) agricultural infrastructure development project (12%) and (2) other multipurpose financing (9%).

(2) Consistency with development needs

LGUs³ (provinces, cities, and municipalities) depend on IRA for an average of 65% of their financing. At the municipality level, the average climbs to 74%. Approximately 40% of LGUs rely on IRA for over 90% of their annual revenue (2005).⁴ To promote local development, it is stipulated that 20% or more of IRA be utilized for development project expenses (excluding personnel expenses). However, there is no agency to supervise the actual usage, and it has been pointed out that, in fact, usage is not connected to implementation of development projects.⁵

Given this situation, to promote social infrastructure projects in particular among development projects, it is necessary to have a means of fund procurement that can meet the investment needs of LGUs, and effective usage of IRA is also necessary. In particular, to promote projects in which cost recovery is difficult, it is significant to provide policy financing as a fund source for long-term loans at fixed interest rates.

Furthermore, sub-loan projects are each chosen from among the priority projects in the development plan of each LGU, and so they are consistent with the development needs of LGUs.

2.2 Efficiency (rating: b)

In this project, project cost was basically as planned, but because the project period exceeded the planned period by approximately 140%, the efficiency was evaluated as moderate.

2.2.1 Outputs

Following the exchange of notes in September 1998, loans were provided to 109 LGUs through LBP (two-step loans⁶), and 120 sub-projects were implemented (117 sub-project implementation loans, 3 sub-project formation loans⁷). Shown below are the planned loan

³ Philippine LGUs may be broadly divided into provinces, cities, municipalities, and barangays. The number of LGUs as of September 2007 is 17 administrative districts, 81 provinces, 136 cities, 1,494 municipalities, and 41,995 barangays. LGUs targeted by this project include provinces, cities, and municipalities. LGUs are defined as follows: province, population of 250,000 or more, annual revenue of 20 million pesos or more, area of 2,000km² or more; city, population of 150,000 or more, annual revenue of 20 million pesos or more, area of 100km² or more; municipalities, population of 25,000 or more, annual revenue of 2.5 million pesos or more, area of 50km² or more; barangay, village population of 2,000 or more. (see Local Government Code).

⁴ Bureau of Local Government Finance (2005)

⁵ "Study Report on Formation of Project for Decentralization of Authority, Regional Development, and Improvement of LGUs' Administrative Capabilities in the Republic of the Philippines" (December 2005, JICA)

⁶ The two-step loan is lending method in which a loan is made to a local financial institution which then re-lends the funds to a local company. The loan from the executing agency (LBP) to a LGU is called a sub-loan, and the project funded by a sub-loan is called a sub-project.

⁷ "Sub-project implementation loans" are loans for LGUs to implement project. "Sub-project formation loans" are loans

allocation at the time of appraisal and the actual loan allocation.

Table 1: Comparison of Original and Actual Loan Allocation

Item	Plan (at appraisal)	Actual	
	Amount (million yen)	Amount (million yen)	Loans
Sub-project implementation loans	5,771	5,890	117
A: Public health/healthcare facilities and equipment, low-cost housing	(2,885)	(476)	(6)
B: Water supply facilities, flood control, sanitation facilities	(2,193)	(3,512)	(75)
C: Afforestation, sewerage, and waste disposal facilities	(693)	(1,902)	(36)
Sub-project formation loans	179	20	3
Consulting services	122	159	-
Total	6,072	6,069	120

Source: Loan screening materials and project completion reports provided by JBIC.

There is a disparity between the plan at the time of appraisal and the actual loan allocation in the sub-project sector. This is a result of the fact that sub-projects were selected based on requests from LGUs. For example, whereas there were no requests from LGUs for afforestation, there were strong needs for water supply facilities.

Regarding sub-project formation loans, feasibility studies were conducted for three projects, and all three (water supply project, waste disposal-related project, and flood control) were put into operation. The actual loan amount for sub-project formation was only just over 10% of the planned amount, but this is because more LGUs than initially anticipated conducted feasibility studies at their own expense.

In the course of propelling the projects forward, changes as shown in the table below were made in the loans' terms and conditions due to the fact that, LGUs were negative concerning loans for the environment and loans with a low rate of project returns and the fact that the loans' terms and conditions were not competitive compared with other lending programs. Due to these changes, the loans which were initially delayed were accelerated, and the sub-loans were actualized as initially planned by the end of the project (see 2.2.3 Project cost).

for the expense of feasibility studies for projects.

Table 2: Comparison of Original and Actual Project Scope

(Projects eligible for loans and terms/conditions)		
	Plan (at appraisal)	Actual
a) Sectors targeted for sub-loan projects	<ul style="list-style-type: none"> • Sub-project implementation loans <ul style="list-style-type: none"> - Category A (public health, healthcare, and equipment; low-cost housing) - Category B (water supply facilities, flood control, sanitation facilities, etc.) - Category C (afforestation, sewerage, waste disposal facilities) • Sub-project formation loans 	<p>As planned</p> <p>However, there were no requests from LGUs for the afforestation projects which were assumed as part of Category C, and so no loans were provide for afforestation.</p>
b) LGUs targeted for sub-loan projects	Provinces, cities, and municipalities with high to moderate creditworthiness. However, financing is possible for LGUs with moderate to low creditworthiness with the approval of the LBP governor.	As planned
c) Loan terms and conditions:		
- Sub-loan financing limit	<ul style="list-style-type: none"> • Sub-project implementation loan: 5 million to 50 million pesos per loan • Sub-project formation loan: 3 million pesos or less per loan 	<ul style="list-style-type: none"> • Sub-project implementation loan: 5 million to 50 million pesos per loan. However, depending on borrowing capacity, more than 50 million pesos is possible. • Sub-project formation loan: As planned
- Loan allocation	Loans 65%, LBP loans 10%, LGU proprietary capital 25%	Loans under 80%, LBP loans 10%, LGU proprietary capital over 10%
- Interest rates	<ul style="list-style-type: none"> • Sub-project implementation loan: High creditworthiness (14%-15.5%), moderate creditworthiness (14.5%-16%), Fixed interest rate • Sub-project formation loan: 14% (high creditworthiness), 14.5% (moderate creditworthiness) (fixed) 	9%-11% fixed interest rate (for both sub-project implementation loans and formation loans)
- Repayment period	<ul style="list-style-type: none"> • Sub-project implementation loan: Standard 3-10 years, maximum 15 years (with a maximum grace period of 2 years) • Sub-project formation loan: More than 1 year, within 3 years (no grace period) 	As planned

Source: Loan screening materials and project completion reports provided by JBIC.

2.2.2 Project period

The project period was originally scheduled for September 1998 to December 2003, a period of 64 months, but the actual project period was September 1998 to January 2006, a period of 89 months (an extension of 25 months over the original plan). The main reasons for the delay are as follow.

Main internal reasons

- Delay in selection of consultant (delayed 1 year beyond plan)
- Just under 70% of the LGUs had no experience borrowing loans prior to this project (according results of interview survey⁸ with LGUs), and so they tended to be hesitant about

⁸ In this evaluation study, in addition to the interview survey by the evaluator with five LGUs, an interview survey of 42

- borrowing.
- Inadequate provision of information concerning this program to LBP's Lending Centers (LC), and LC and LGUs' lack of knowledge and experience concerning sector loans.
 - Lack of competitiveness with the lending terms and conditions of other LBP programs
 - There were many LGUs which hesitated to use loans because the initial 25% proprietary capital requirement was difficult to meet

Main external reasons

- Suspension of loan screening and halt of construction, etc., occurred due to the local and national elections held in 2001 and 2004
- Additions to and revisions of the required documents accompanying the establishment of a new legal system for procurement in government-related projects (RA9184) in 2003

Delays in the project were particularly striking during the first two years, and subsequently measures were taken to make the project competitive, such as altering the loan terms and conditions as described above, and lending proceeded.

With regard to waste disposal, in January 2001 the Ecological Solid Waste Management Act of 2000 (RA9003) came into effect, obligating LGUs to prepare and implement a waste disposal plan (a 10-year plan). Due to this, waste disposal projects were promoted at the LGU level.

2.2.3 Project cost

Whereas the original project cost was 6,072 million yen, the actual project cost was 6,069 million yen, which was basically as planned. The yen loan applied to each sub-project was limited to 80% of the total project cost (5 million to 50 million pesos, as a rule⁹), but in 2004 the limit was removed and loans were granted flexibly because it was decided that there was no need for a ceiling if the borrower had adequate borrowing capacity.

Moreover, in implementing sub-loan projects, in order to promote the self-help efforts of LGUs and the strengthening of decentralization, the aim was to have LGUs bear 10% or more of the project cost. In the actual financing, this condition was observed, and the self-help efforts of the LGUs were recognized.¹⁰

LGUs was conducted by hiring a local consultant.

⁹ At the time of appraisal, the exchange rate was 1 peso = 3.5 yen and US\$1 = 121 yen = 34.5 pesos. The sum of 5 million to 50 million pesos was approximately equal to 17.50 million to 175.0 million yen.

¹⁰ When calculated using LBP records, financing from this project made up approximately 60% of the total sub-project cost and 32% was borne by the LGUs. However, LBP's definition of "total project cost" in the sub-projects is vague. For example, because this project is only financing a part of the waste disposal project which is to be implemented in multiple phases in the municipality of Kapalong, the LBP states that the LGU is financing 80% and this project is financing 20%. Hence, because there is no attempt at consistency, it is difficult to grasp the accurate figures.

Table 3: Disbursed Amount by Calendar Year

(million yen)

Year	Plan (at appraisal)	Actual
1999	911	—
2000	1,457	60
2001	911	601
2002	1,397	217
2003	1,396	1,155
2004	—	1,221
2005	—	2,815
Total	6,072	6,069

Source: Loan screening materials and project completion reports provided by JBIC.

2.2.4 Appraisal procedure and loan terms and conditions

In conducting loan screening, just as in ordinary loan operations, LBP checked the LGUs' project plans, the relevance of the equipment and materials scheduled to be bought, results of the feasibility study on the facilities to be constructed, financial strength, appraisal of the repayment feasibility, and acquisition of environmental permits,¹¹ etc. From among the loans for which formal applications have been received, those which are not approved by this project not because they do not meet the basic terms and conditions for acceptance but due to differences in sector, etc., LBP studies financing of those applications on its own.

To ensure competitiveness given the lower market interest rates, and in consideration of that financing did not progress when the project initially started because LGUs were negative regarding loans for the environment and loans with low rates of profitability, the interest rate on sub-loans was altered from the 14%-16% of the original plan to 9%-11%. Regarding sub-loan interest rates in other LBP programs, interest rates are 9%-11% in LGU Support Project (2000-2006) by the World Bank and in the Mindanao LGU Project (2002-2008) in the Philippines by the ADB. Moreover, the LGU Investment Project by KfW started in 2006 also applies the same interest rate. Meanwhile, the lowest interest rate of this project was set with the condition of it not being lower than the interest rate on loans by the Municipal Development Fund (MDF), which is under the control of the Ministry of Finance, and the interest rate on MDF loans is determined based on the market interest rate. The MDF interest rate at the time of appraisal was 14%, but it was gradually lowered accompanying the decline in the market interest rate. In 2004 it was revised to 9%, and the revision of the interest rate for this project's sub-loans also followed this principle.

¹¹ In this project, the Philippine Environmental Impact System (PEIS) (revised) was applied, and it was essential to obtain an environmental permit from the Ministry of the Environment prior to the start of the project. The LGUs were obligated to submit an ECC (Environmental Compliance Certificate) or a CNC (Certificate of Non-Coverage) to LBP at the time of application.

According to the interviews of LGUs, 44 of the 47 LGUs which responded to the questionnaire answered that the interest rate and the loan terms and conditions as well as the convenience of procedure were appropriate. In addition, there were no particular requests from the LGUs in response to the question of whether it is needed to review the appraisal procedure or the loan terms and conditions. Considering this, it is evaluated that the sub-loan appraisal procedure, the loan terms and conditions following revision, and the implementation process were realistic and appropriate.

2.3 Effectiveness (rating: a)

The effects of the implementation of this project were expressed as planned overall, and the project's effectiveness is high. The reasons behind the evaluation of the effectiveness are as follow.

2.3.1 Contribution to LGUs' social infrastructure development

In a situation in which promotion of local development by LGUs was slow, it is evaluated as an effect of this project's policy financing that 109 LGUs of the approximately 1,700 LGUs nationwide were able to implement priority projects from their respective development plans without waiting for subsidies from the central government, which contributed to the actualization of the LGUs' social infrastructure development. Considering that approximately 70% of the LGUs who responded to the interviews had no experience in borrowing funds prior to this project, it is significant that this project expanded the LGUs' options for funding sources which contribute to the promotion of development projects.

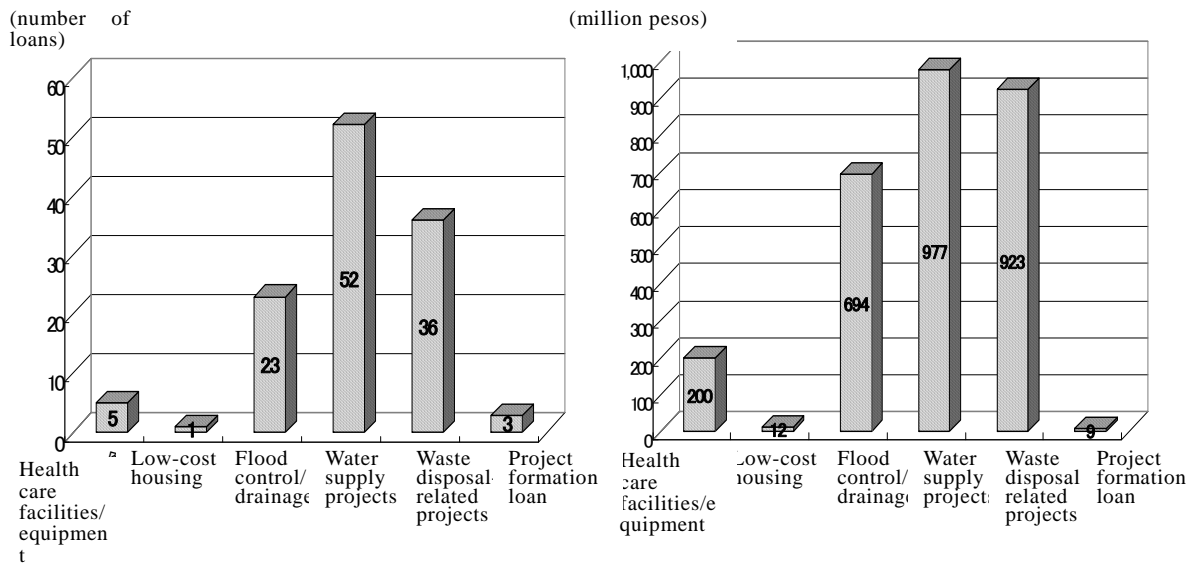
2.3.2 Sub-loan financing record

(1) Sub-loan financing amount and trends by sector

Looking at the sectors of the projects financed, the sector with the highest number of financed sub-loan projects was the water supply sector. In terms of monetary amount, nearly the same amount was loaned for water supply-related projects, flood control-related project, and waste disposal-related projects. The average amount borrowed by LGUs was approximately 19.00 million pesos for water supply-related projects, 25.00 million pesos for waste disposal-related projects, and 30.00 million pesos for flood control-related projects. Given the creditworthiness and capacity of LGUs, there was a relatively large amount of small-scale financing. Furthermore, it has been confirmed that the borrowed funds were used to purchase heavy equipment which is being

utilized in a multi-purpose manner for civil engineering projects in 33 of the 36 waste disposal projects and in 19 of the 23 flood control projects.

Figure 1: Sub-Project Loan Amount by Sector (left: number of loans; right: loan amount)

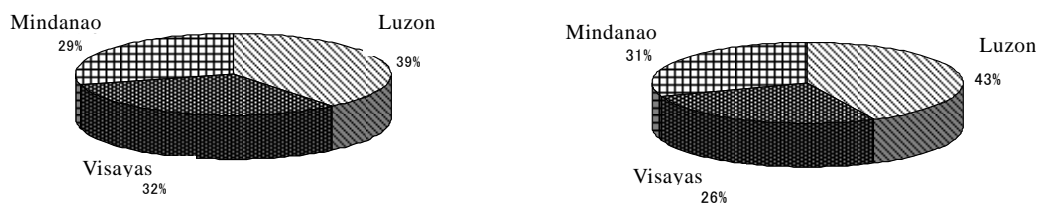


Source: Prepared by author using information provided by the executing agency.

(2) By region and type of LGU

LBP has 35 Loan Centers (LC) nationwide, and loans were provided to LGUs through 27 of those LCs for this project. In the original plan, the allocation by region was planned as 45% to Luzon, 25% to Visayas, and 30% to Mindanao, and in fact, the financing was provided with no major alteration in this allocation and fairness toward the regions was maintained.

Figure 2: Percentage of Sub-Loans by Region (left: number of loans; right: loan amount basis)

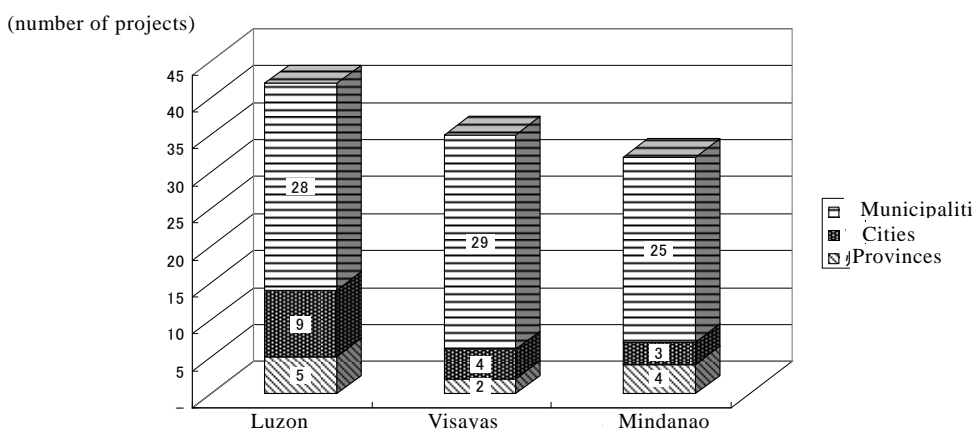


Source: Prepared by author using information provided by the executing agency.

Of the 109 LGUs targeted for financing, 82 LGUs (75%) were municipalities, 16 LGUs (15%) were cities, and 11 LGUs (10%) were provinces. The distribution by region and type of LGU is shown on the figure below. Meanwhile, looking at the average financing

amount per single LGU by each LGU type, the amount was 16.00 million pesos for municipalities, 50.00 million pesos for cities, and 38.00 million pesos for provinces. It turns out that municipalities, which have a small scale of annual revenue, had a large need for small loans, while cities, which have a relatively large tax base, had a need for large loans overall.

Figure 3: Trends in Number of Projects Implemented by Region and LGU Type



Source: Prepared by author using information provided by the executing agency.

2.3.3 Effectiveness of sub-loan projects

The sectors, scales, and objectives of the sub-loans implemented under this project are varying, and there are numerous constraints on evaluating the effectiveness of each sub-loan individually. Therefore, this evaluation will present multiple examples as case studies, in addition to the number of beneficiaries.

(1) Beneficiaries by region

The total number of beneficiaries resulting from the implementation of this project is approximately 9.8 million persons, or 1.95 million households. The beneficiaries by category and region are as shown below.

Table 4: Total Number of Beneficiaries by Region

(persons)

Category	Luzon	Visayas	Mindanao	Total
A (Public health/healthcare facilities, low-cost housing)	409,600	970	311,430	722,000
B (Water supply, flood control)	4,078,960	1,110,790	2,338,360	7,528,110
C (Waste disposal)	390,700	72,100	1,149,200	1,612,000
D (Sub-project formation loans)	12,600	-	-	12,600
Total	4,891,860	1,183,860	3,798,990	9,874,710

Source: Executing agency

(2) Example of effect indicators for water supply project

According to interviews with LGUs, LGUs where a water supply being developed for each house amounted to only 30% of the LGUs surveyed in 1998. However, in 2007 a water supply for each house was being developed in over 80% of the LGUs, and this is considered as a result of this project.

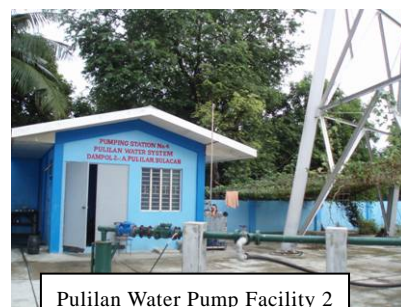
Below are shown examples of changes in the water supply coverage rate in LGUs. Although there are LGUs such as the municipality of Jordan which did not achieve the planned level, the actual level exceeded the level planned at the time of appraisal in the other LGUs shown.

Table 5: Changes in the Number of Beneficiaries and in the Water Supply Coverage Rate by Region

LGU	Beneficiaries (persons)		Coverage Rate (%)	
	At Appraisal	Currently	At Appraisal	Currently
Pulilan (Bulacan)	16,500	27,500	24%	35%
Sara (Iloilo)	6,430	10,080	13%	24%
Bontoc (Leyte)	4,690	5,390	16%	20%
Jordan (Guimaras)	3,700	2,400	N.A.	8%

Source: Prepared by the author using results of interviews with LGUs.

Looking at the evaluations by the beneficiaries, for example in the beneficiary survey in the Pulilan Water Supply Project, approximately 80% of respondents answered that they are either satisfied or very satisfied with the water supply service. The main reasons for satisfaction are lightening of labor (57%) and adequate



Pulilan Water Pump Facility 2

availability of water (30%). While there are some requests to lower water charges, 70% of respondents answered that they have no problem with the payments. Also, monthly water charges average 300 pesos and is an appropriate level, which is near 338 pesos/month¹², the average local household usage indicated by the local public water company.

(3) Effects of hospital project (case of municipality of Muntinlupa)

In this municipality, the sub-loan was applied to purchase of healthcare equipment accompanying construction of a new hospital.



Implementing the beneficiary survey

Prior to the establishment of this hospital in Muntinlupa, there was no well-equipped public hospital, and residents were forced to use the 13 health centers in the city or to go to a hospital in a neighboring region. Since the establishment of the hospital in 2001, 4,000 to 6,000 patients per month have been utilizing this hospital. 70% of the patients are extremely poor or poor and 30% are middle lower class. Also, LGU subsidizes up to 75% of healthcare costs depending on the patient's poverty level, and this support makes it possible to provide low-income earners with healthcare. Thus, it can be said that the purchase of healthcare equipment through this project contributed to the expansion of regional healthcare services.

(4) Effect of waste disposal-related project (case of municipality of Tarlac)

In this municipality, a sub-loan was applied to the purchase of heavy equipment used for waste collection, disposal and in other infrastructure projects.

In Tarlac City, waste collection for some barangays began in 1999, but it reached less than 20% of all barangays. Moreover, waste placed at public waste collection sites was irregularly collected (about once a week per location) and thrown into trash dumps. Since environmental waste bylaws were enacted in 2001, development of a waste disposal center has been started and waste measures are progressing.

After purchasing waste collection trucks (8 trucks) with financing from this project in 2004, the range of service was expanded to all 75 barangays in the municipality, and approximately 60,000 persons are utilizing that service.

According to the result of the beneficiary survey, 92% of respondents recognize that the

¹² See the Water Rates Manual of the Local Water Utilities Administration (LWUA), http://www.lwua.gov.ph/water_rates/rates_two.htm

city is conducting a waste disposal project and are using the waste collection service. Through this, 84% of respondents say that they feel an improvement in their living environment and are basically satisfied with the service. Meanwhile, 55% of respondents request more frequent collection service (currently collection is once per week), and continued effort towards the expansion and enhancement of the facilities is expected.

2.4 Impact

2.4.1 Capacity of LGU employees

No particular training was conducted to improve the LGUs technology for plan preparation, design, and implementation when the sub-project was conducted. However, on-the-job-training (OJT) was implemented when the LCs of LBP and the project's consulting service involved the appropriate LGU employees in the implementation process, including assistance with preparation of bidding documents and the appraisal and supervision of construction-related documents.

Examples of Training and Seminars

In this project, the following seminars and training were conducted for LC-related LBP personnel and LBP personnel assigned to work with LGUs.

- a) Guidance on project guidelines and project appraisal (35 times, 2000-2001)
- b) Guidance on the law (RA9184) related to procurement procedures as well as project monitoring and environmental appraisal standards (35 times, 2000-2001)
- c) Guidance on project selection and appraisal
- d) Forums on promotion of water supply projects (3 times, 2005)
- e) Technology forums on issues in the environmental and sanitation sector and on waste disposal (3 times, 2005)
- f) In addition, LBP's LCs provided LGUs with guidance as necessary on individual issues

According to the interview survey of LGUs, 42% of the LGUs responded that the LGU improved its governance including investment and management of funds through this project, and 36% of the LGUs said that the LGU improved its ability to plan and manage projects.

2.4.2 Derivative effects on targeted region and persons (impact)

With regard to water supply projects – for example, according to the beneficiaries of the water supply project in the municipality of Jordan – the project contributed to the reduction of household expenditures, such as the water usage charges that dropped 60% compared to those of water purchased from a private water supply company. According to the beneficiaries of the water supply project in the municipality of Pulilan, approximately 80% of the respondents reported that the time they have to spend with their families has been increased because they didn't have to spend as much time obtaining water compared to before the project, and also that life has been improved because they can take showers.

In the waste disposal project in the municipality of Minglanilla, it was confirmed that there are attempts to expand social services to the socially disadvantaged, such as donating the profits obtained from the sale of the collected plastic and iron scraps through the promotion of recycling to the LGU handicapped group and selling fertilizer made from organic waste at a low cost to farmers in inaccessible hilly areas in the LGU.

Furthermore, in the selection of sub-projects, one of the conditions during appraisal was not to cause resident relocation, and in fact no cases of resident relocation were confirmed. Moreover, there were some cases where it was necessary to acquire land in water supply projects and waste disposal project, but all the land was donated to the LGU and no problems occurred according to the LGUs where interviews were conducted.

2.5 Sustainability (rating: a)

There are no problems in the capacity or the operation and maintenance system of the executing agency for this project, and the project is expected to have a high level of sustainability.

2.5.1 Condition of revolving fund¹³

The monitoring condition of the project's revolving fund is indicated on the table below. Utilizing the revolving fund of 1 billion pesos (approximately 2.7 billion yen) collected up to September 2007, heretofore 40 sub-projects have been implemented in 40 LGUs. No particular problems are detected in the financial aspect of the program's operation. Furthermore, the sub-projects implemented with these collected funds are meant to respond to the LGUs' investment needs, and are financed without specification of the sector.

¹³ Surplus funds which result from the gap between the repayment period of the sub-loan and the repayment period of the yen loan. These funds are used to carry out new financing.

Table 6: Monitoring Condition of the Revolving Fund

(peso)

	2000	2001	2002	2003
Brought forward from previous year (a)	-	0.00	0.00	2,370,364.65
Disbursement of yen loans (b)	9,593,078.92	224,952,224.51	67,442,483.11	512,231,695.73
Collected principal and interest on Phase 1 sub-loans (c)			2,370,364.65	63,461,116.37
Collected principal and interest on RF sub-loans (d)	-	-	-	-
Total received (e) = (b) + (c) + (d)	9,593,078.92	224,952,224.51	69,812,847.76	575,692,812.10
Phase 1 sub-loan lending (f)	9,593,078.92	224,952,224.51	67,442,483.11	512,231,695.73
RF sub-loan lending (g)	-	-	-	-
Number of loans through RF	-	-	-	-
Repayment of yen loan principal (h)	-	-	-	-
Total payments (i) = (f) + (g) + (h)	9,593,078.92	224,952,224.51	67,442,483.11	512,231,695.73
Carried forward to next period (a) + (e) - (i)	0.00	0.00	2,370,364.65	65,831,481.02

	2004	2005	2006	2007
Brought forward from previous year (a)	65,831,481.02	231,020,403.02	476,336,067.38	28,081,206.83
Disbursement of yen loans (b)	613,567,536.65	1,271,364,043.58	-	-
Collected principal and interest on Phase 1 sub-loans (c)	165,188,922.30	245,315,664.06	305,986,496.28	240,399,259.21
Collected principal and interest on RF sub-loans (d)	-	-	-	-
Total received (e) = (b) + (c) + (d)	778,756,458.95	1,516,679,707.64	305,986,496.28	240,399,259.21
Phase 1 sub-loan lending (f)	613,567,536.65	1,271,364,043.58	-	-
RF sub-loan lending (g)	-	-	754,241,356.83	254,793,171.00
Number of loans through RF	-	-	14	26
Repayment of yen loan principal (h)	-	-	-	-
Total payments (i) = (f) + (g) + (h)	613,567,536.65	1,271,364,043.58	754,241,356.83	254,793,171.00
Carried forward to next period (a) + (e) - (i)	231,020,403.02	476,336,067.38	28,081,206.83	13,687,295.04

*2007 figures are as of September 2007.

source: Prepared by author from information provided by the executing agency.

2.5.2 Executing agency (LBP)

(1) Condition of cash collection

To grasp the condition of loan fund collection and arrears of payments from the perspective of sustainability of two-step loans, the executing agency enlisted basic indexes as shown on the table below. Sub-loans approaching the end of their repayment period have been collected without delay up to now, and up to September 2007, approximately 1 billion pesos (about 2.7 billion yen) had been collected.¹⁴

Table 7: Condition of Cash Collection Rate

(peso)

	2002	2003	2004	2005	2006	2007
Amount of principal and interest due (a)	2,370,364.65	63,461,116.37	165,188,922.30	245,315,664.06	305,986,496.28	240,399,259.21
Amount collected (b)	2,370,364.65	63,461,116.37	165,188,922.30	245,315,664.06	305,986,496.28	240,399,259.21
Cash collection rate (b)/(a)	100%	100%	100%	100%	100%	100%

*2007 figures are as of September 2007.

Source: Executing agency

(2) Operation and maintenance system

The project's sub-loans are operated and maintained by the respective LC of LBP, and the LBP's Project Management Division at the main office receives reports and supervises the sub-loans. The loan screening and management procedures used in this project are in keeping with LBP loan procedures, and finances have been conducted according to plan; and heretofore, there are no delays in cash collection. Considering these points, no technical issues can be detected for loan screening or credit management. On the other hand, in the field survey for example, considering the fact it has been confirmed that the planned level has not been achieved in some water supply projects, it is expected that techniques of appraisal for loan screenings be improved and also the projects' effects be confirmed at the time of the monitoring and evaluations which are conducted quarterly. Moreover, it would be effective to follow up by hiring consultants, etc., as necessary.



¹⁴ The security for these sub-loans is the procured equipment and materials, 20% of IRA (portion to promote utilization of development projects), and 20% of the LGU's regular budget. Moreover, LBP is the accounting bank of the LGUs. So, it is possible to automatically collect the loans of this project, and a cash collection rate of 100% is being achieved.

Meanwhile, with regard to the division in charge at the LBP's main office, the current situation is that operation and maintenance of this project is dependent upon the efforts of a limited number of personnel. However, given that repayment without delay has been secured and that 40 second-generation projects have already been implemented utilizing the revolving fund, it can be expected that operation and maintenance will be continuously conducted.

(3) Financial Status

As of the end of 2006, LBP is lending approximately 25.1 billion pesos to 629 LGUs. LBP ranks fourth (2006 and 2007) in the Philippines compared with private commercial banks. It is a sound bank which maintains the highest management condition among government financial institutions and savings banks, and it seems to have no problems in its lending, screening, and debt collection system. As summarized on the table below, the financial status of LBP is satisfactory, and it is stably producing profit. The ratio of bad debts is improving each year.

Table 8: Financial Status

(billion pesos)

	2002	2003	2004	2005	2006
Ordinary revenue	1,658.60	2,001.20	2,705.00	3,019.90	3,539.10
Ordinary profit	17.90	18.50	22.90	29.10	24.40
Capital adequacy ratio (%)	8.25	9.34	12.70	12.14	12.39
Return on assets (%)	1.10	1.00	0.90	0.77	0.69
Bad debt ratio (%)	12.39	12.14	12.70	9.34	8.25

source: Executing agency's FY2006 Annual Report

To assist LGUs, in addition to utilizing the above-mentioned revolving fund, the KfW-LGU Investment Programme has been launched by the German government, and continuous fiscal assistance for LGUs by LBP is available.

(4) System for collaboration with other institutions

While operating the program and implementing the sub-loan project, there was no direct collaboration with the related ministries, agencies, or institutions. However, throughout the implementation of the project, the LGUs and sub-loan project contractors have received appropriate advice in conformity with the standards of the Local Water Utilities

Administration (LWUA) and the Department of Public Works and Highways (DPWH). This also contributes to the sustainability of the project henceforth.

2.5.3 LGUs

(1) Financial status

The security for these sub-loans is the procured equipment and materials, 20% of IRA (the portion to promote the utilization of development projects), and 20% of the LGU's regular budget. According to the survey of LGUs, 35 out of the 44 LGUs who responded are using IRA for repayments. Moreover, considering the situation that approximately 40% of the LGUs rely on IRA for over 90% of their finances, stable allotment of IRA is the key to economic sustainability.

Looking at the condition of funds for operation and maintenance of the sub-projects, 80% of the LGUs surveyed responded that they have secured the operation and maintenance funds for the constructed facilities and purchased equipment and materials. Moreover, in the case of water supply projects, nearly half of the LGUs responded that they collect 100,000 to 200,000 pesos/month as water fees and use that as project operating funds.



Although there is variation in the scale and content of the water supply projects of this sub-project, it can be said that some LGUs cannot secure adequate operation and maintenance funds. According to the Water Rates Manual¹⁵ of LWUA, in the case of water supply facilities that supply 195,000 cubic meters of water annually¹⁶ to 865 beneficiary households, an annual average of 1.48 million pesos (123,000 pesos/month) is required for operation and maintenance costs.

Moreover, to raise operation and maintenance funds for the purchased waste disposal trucks, it is confirmed that the collected scrap iron, etc., is sold at auction, and efforts towards securing funding sources are found.

(2) Operation and maintenance status (including technical issues)

¹⁵ See the Water Rates Manual of the Local Water Utilities Administration (LWUA)

http://www.lwua.gov.ph/water_rates/rates_two.htm

¹⁶ According to interview surveys with LGUs, the average water supply amount in the 25 LGUs that implemented water supply projects was 180,000 cubic meters annually.

Each LGU's Planning and Development Division is the contact point for implementation of the sub-loans projects. Depending on the content of the project, it may be consigned for implementation to the technical personnel in charge or other related governmental agency.

According to the LGU interview survey, 44 of the 47 LGUs responded that the interest rate, loan terms and conditions, and ease of the procedures were suitable, and no technical issues in the loan borrowing procedures were found. Meanwhile, there are some LGUs with concerns about project operation capability, for example, 11 of the LGUs indicate inadequate operation and maintenance capacity including in fund management, and it is also confirmed on the field survey that some problems had been occurred in operation and management of water supply projects.

In the area of technology, LGUs which constructed facilities basically received technical guidance through OJT from the contractors, and LGUs that purchased equipment and materials received instructions from the suppliers.

For management and repair of the procured equipment and materials, the LGUs have engineers and operators, and no problems in particular have been indicated. However, the number of technicians was zero or no more than one or two in approximately 80% of the LGUs surveyed, and so external technical support or consignment is essential.

3. Conclusion; Lessons Learned and Recommendations

3.1 Conclusion

Given the above, this project is evaluated as "A".

3.2 Lessons Learned and Recommendations

(1) Supporting LGUs for social infrastructure development

This was a project to offer a means of fund procurement so that LGUs could implement public projects as the organizers in order to actualize the important policies mandated by the central government. However, LGUs which do not have an adequate annual revenue base of their own or adequate fund management capability have a strong interest in projects with produce revenue, such as construction of public markets and bus terminals, rather than in environmental and public health projects.

Given such conditions, to further promote social infrastructure development organized by the LGUs, it is likely to contribute to more realistic social infrastructure development by

providing incentives such as making loans available for projects in non-targeted sectors at the same advantageous terms and conditions for LGUs, for example, who borrow loans through policy finance and implement a waste disposal project.

(2) Monitoring and evaluation of similar two-step loans (TSL)

In this project, there were many LGU borrowers and they were dispersed across the country. The evaluation indicators for the program overall were limited to indicators that confirm the achievements such as number of sub-loan projects implemented, loan amounts, repayment amount, number of beneficiaries, and revolving fund utilization status.

Meanwhile, regarding the evaluation of each sub-loan project, the LCs of LBP conducted quarterly monitoring timed to coincide with the loan payment statements until the end of repayment of each sub-loan project. The main evaluation indicators are progress of construction and usage of purchased equipment and materials. As indicators to measure the effects of the project, one to three evaluation indicators for each sector are mentioned in the project completion report. This monitoring and evaluation was not conducted systematically, but rather it was entrusted to the efforts of LGUs on their own.

It seems to be necessary, under the direction of the project management office, to set evaluation indicators prior to the start of the project and to keep thorough records, including obligating the LGUs to submit monitoring records as a loan condition, in order to systematically monitor and evaluate the real effects and the sustainability of each sub-loan project.

(3) Capacity development component

When this project initially began, there were many LGUs that hesitated to access sub-loans due to their lack of technical capacity and operation and management capacity as well as lack of experience. Henceforth in similar projects, the financing opportunity could be utilized more effectively and could contribute to enhancement of public services if sub-loans incorporate enhanced technical cooperation components or collaborate with other technical cooperation agencies.

Comparison of Original and Actual Scope

Item	Plan		Actual				
1. Output 1) Sub-loan project cost a) Loan allocation							
	Item	Amount (million yen)	Item	Amount (million yen)			
	LGU investment loan	5,771	LGU investment loan	5,890			
	(Healthcare facilities and equipment, low-cost housing)	(2,885)	(Healthcare facilities and equipment, low-cost housing)	(476)			
	(Water supply facilities, flood control, etc.)	(2,193)	(Water supply facilities, flood control, etc.)	(3,512)			
	(Afforestation, sewerage and waste disposal facilities)	(693)	(Sewerage and waste disposal facilities)	(1,902)			
	Sub-project formation loans	179	Sub-project formation loans	20			
	Consulting services	122	Consulting services	159			
	Total	6,072	Total	6,069			
	b) Fund plan	Year	Amount (million yen)	Year	Amount (million yen)		
1999		911	2000	60			
2000		1,457	2001	601			
2001		911	2002	217			
2002		1,397	2003	1,155			
2003		1,396	2004	1,221			
Total		6,072	2005	2,815			
			Total	6,069			
c) Loan terms and conditions		<ul style="list-style-type: none"> • Sub-project implementation loan: 5 million to 50 million pesos per loan • Sub-project formation loan: 3 million pesos or less per loan 		<ul style="list-style-type: none"> • Sub-project implementation loan: 5 million to 50 million pesos per loan. However, over 50 million was allowed depending on borrowing capacity. • Sub-project formation loan: As planned 			
						- Sub-loan financing ceiling	Project loan 65%, LBP loan 10%, LGU funds 25%
	- Loan distribution					Project loan 80% or less, LBP loan 10%, LGU funds 10% or more	
	- Interest rate					9-11% fixed interest rate (for both sub-project implementation loans and formation loans)	
- Repayment period	<ul style="list-style-type: none"> • Sub-project implementation loan: High creditworthiness 14-15.5%, moderate creditworthiness 14.5-16%, fixed interest rate • Sub-project formation loan: High creditworthiness 14%, moderate creditworthiness 14.5% (fixed) 		As planned				
	<ul style="list-style-type: none"> • Sub-project implementation loan: Standard 3-10 years, maximum 15 years (maximum grace period 2 years) • Sub-project formation loan: 						

Item	Plan	Actual
	-More than 1 years, less than 3 years (no grace period)	
2) Organizational strengthening and technical support portion (consulting service)	-Support for overall project implementation, including loan evaluation -Support for technical assistance from the Land Bank to LGUs Foreign 24.0 M/M Local 96.0 M/M Total 120.0 M/M	- As planned - As planned - Addition of marketing component - As planned
2. Project period L/A signing Consulting service Loan disbursement	September 1998 May 1999 – December 2003 May 1999 – December 2003	September 1998 March 2000 – January 2006 March 2000 – January 2006
3. Project cost Foreign currency Local currency Total ODA loan portion	5,950 million yen 122 million yen 6,072 million yen 6,072 million yen	6,000 million yen 69 million yen 6,069 million yen 6,069 million yen