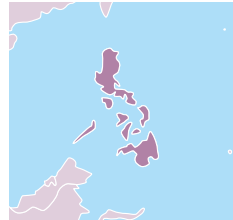




Asia Philippines



# Local Government Units Support Credit Program

Contributing to the development of local social infrastructure by diversifying sources of funds for LGUs with policy finance

### [External evaluator]

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### Rating

Effectiveness, Impact	a	Overall rating <b>A</b>
Relevance	a	
Efficiency	b	
Sustainability	a	

### Project Objectives

To promote support 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 Local Government Units (LGUs) with a high to moderate level of creditworthiness,\*1 and thereby contribute to promotion of decentralization of power and improvement of the lives of the people.

### Outline of the Loan Agreement

- Loan amount / disbursed amount: 6,072 million yen / 6,069 million yen
- Loan agreement: September 1998
- Terms and conditions: 0.75-2.2% interest rate; 30-40-year repayment period (including a 10-year grace period); general untied [consulting services: 0.75% interest rate; 40-year repayment period (10-year grace period); partially untied]
- Final disbursement date: January 2006
- Executing agency: Land Bank of the Philippines (LBP)
- Website URL: <https://www.landbank.com/>

### Effects of Project Implementation (Effectiveness, Impact)

Through this project, LBP has extended loans to 109 out of approximately 1,700 LGUs across the Philippines. A total of 120 sub-loan projects including water supply flood control and waste management have been financed by these loans. A total of 9.8 million people or about 1.95 million households have benefited from these sub-loan projects. The revolving funds\*2 have been operated smoothly as well.

This project has allowed LGUs to implement priority projects in their respective development plans without waiting for subsidies from the central government. While promotion of local development by LGUs was slow, it is evaluated as a major effect of this project that has contributed to LGUs' social infrastructure development. Considering that approximately 70% of the 47 LGUs surveyed had no experience in receiving loans before this project, it is significant that this project expanded the LGUs' options for funding sources which contribute to the promotion of development projects.

Therefore, this project has largely achieved its objectives and its effectiveness is high.

### Relevance

This project has been highly relevant with the Philippines' national policies and development needs at the times of both appraisal and ex-post evaluation. The sectors covered by sub-loan projects remained high on the policy agenda at both points in time. It has a substantial need for policy finance as an alternative source of funds for these social infrastructure development projects.

### Efficiency

This project's cost was lower than planned, but took longer than planned (140% of planned period); therefore, the evaluation for efficiency is moderate. The main reasons for the delay are the reluctance of the LGUs to receive loans due to their lack of experience, and the non-competitive loan terms and conditions. Later, measures were taken, such as revising the loan terms and conditions, and the loans proceeded.

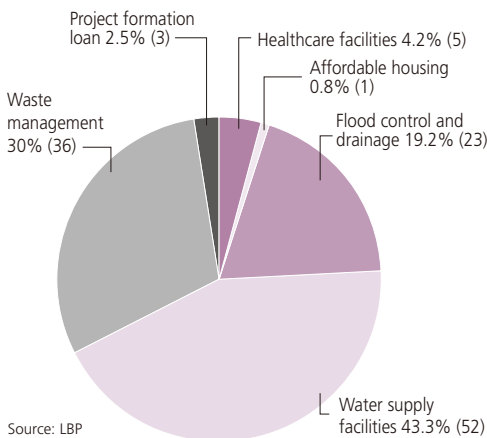
### Sustainability

No major problems have been observed in the capacity of the executing agency nor its operation and maintenance system; therefore, sustainability of this project is high. The collection of sub-loans and the operation of revolving funds have been satisfactory, and no major problems have been observed in the program operation.

### Conclusion, Lessons Learned, Recommendations

In light of the above, this project is evaluated to be highly satisfactory. At the beginning of this project, many LGUs were reluctant to receive sub-loans due to their lack of experience and technical, operational and management skills. In any similar projects in the future, it is advisable to make better use of financing opportunities to contribute to enhancement of public service by incorporating capacity building components or collaboration with other technical cooperation agencies.

Breakdown of loans by sub-project sector (%; the parentheses denote the number of loans)



Source: LBP

\*1. The creditworthiness of LGUs is evaluated using the executing agency's creditworthiness rating system, which assesses its fiscal status, IRA allocations, existence of other loans, and repayment status. The rating scale runs from "low" through "moderate," "moderately high," and "high" to "top," depending on the LGU's fiscal strength (including revenues, fund management system, political situation (leadership, existence of internal conflict, etc.)), GRDP, main industries, and other factors.

\*2. Surplus funds generated by the gap between the repayment period for a sub-loan and that for an ODA loan. A new loan will be offered by taking advantage of such a surplus.