Ex post evaluation – Philippines

›››

Sector: Civilian peace-building, conflict prevention and resolution (CRS code: 15220)
Project: Municipal Development and Conflict Reduction in Mindanao (LGU Investment Programme II (LIP II))* (BMZ no. 2007 65 172)
Implementing agency: Land Bank of the Philippines (LBP)

Ex post evaluation report: 2019

All figures in EUR million	LIP II (Planned)	LIP II (Actual)
Investment costs (total)	7.00**	6.93***
Counterpart contribution	0.00	0.00
Funding	7.00	6.93
of which BMZ budget funds	7.00	6.93

*) Projects in the 2017 random sample, **) Investment costs do not include the costs of the accompanying FC study and advisory services amounting to EUR 1 million (Studies and Experts Fund), ***) At the end of the project, the FC loan agreement was reduced by the remaining amount.

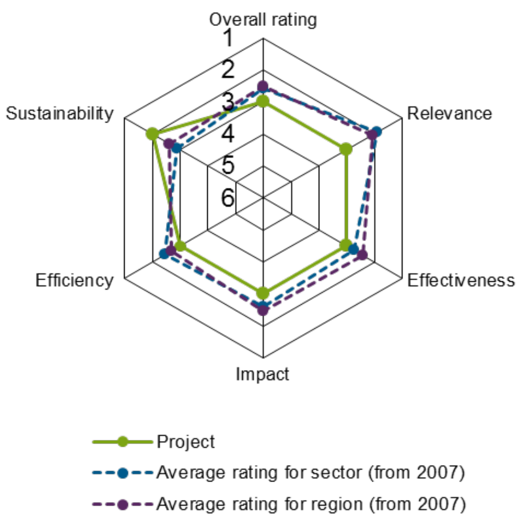
Summary: The project comprised two components: (1) the provision of a credit line in the amount of EUR 7 million by the Land Bank of the Philippines (LBP) to finance municipal investments in social and economic infrastructure; and (2) advisory and training measures from the Study and Experts Fund (SEF) designed to prepare and accompany the project to ensure the conflict relevance and sensitivity of the investments. The municipalities involved in the project mainly financed equipment for the construction of municipal infrastructure as well as smaller-scale infrastructure measures.

Objectives: At outcome level, the FC measure aimed to improve the services provided by the municipalities in a conflict-sensitive way. At impact level, the project aimed to improve the population's living conditions and make an indirect contribution to conflict prevention through socio-economic stabilisation.

Target group: The direct target group of the FC measure was the municipalities in the programme region – with a focus on lower-income municipalities. The indirect target group was the local population. Women in particular were to benefit from the investments in the social and economic infrastructure and the resulting improved services. The geographical focus was on the Caraga region in north-eastern Mindanao based on Philippine-German agreements.

Overall rating: 3

Rationale: In retrospect, the project concept and objectives reflected the core problems of the project region, although the concept of the loan allocation was not convincing. The FC funds were efficiently managed by the LBP. The effectiveness of the investments fell short of the set objectives. While the measures appeared to contribute to a selective improvement in municipal services, the envisaged conflict sensitivity was insufficient both in terms of concept and impacts identified. The evaluation results at impact level are inconclusive: while anecdotal evidence from the target communities points to individual positive impacts, systematic analyses do not provide reliable evidence of substantial effects with respect to income generation and conflict prevention.



Highlights: The evaluation of the project impacts was hindered by the inadequate monitoring system and the very limited data situation. The selected indicators relate only partly to the project objectives and were only assigned target values at the end of the project. The project-executing agency was not able to provide systematic project information for the evaluation.

Rating according to DAC criteria

Overall rating: 3

Ratings:

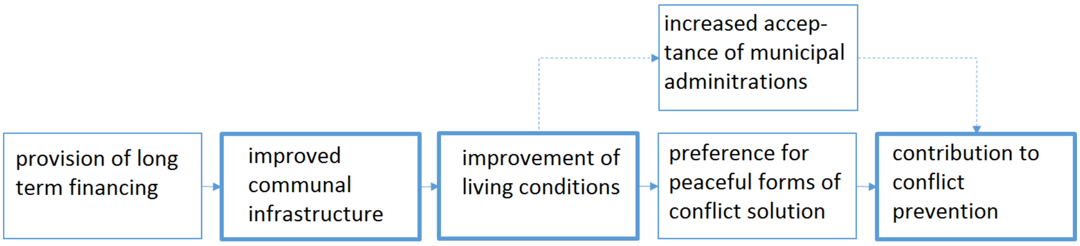
Relevance	3
Effectiveness	3
Efficiency	3
Impact	3
Sustainability	2

Relevance

The project concept meets the central socio-economic challenges of the project region at the time of the appraisal. To this day Mindanao remains the centre of a decades-long, violent conflict with various rebel groups and decentralised groups. The percentage of poor people who live here is disproportionately high: about 25% of the country's total population can be found in Mindanao, but more than one third of the country's economically poor. At the same time, Mindanao is the most important source of agricultural production in the Philippines. As a result, the planned infrastructure expansion and conflict prevention in Mindanao can be expected to make important contributions to social development and stimulate the economy as a whole, also in retrospect. Against this background, the content of the project remains equally relevant to this day.

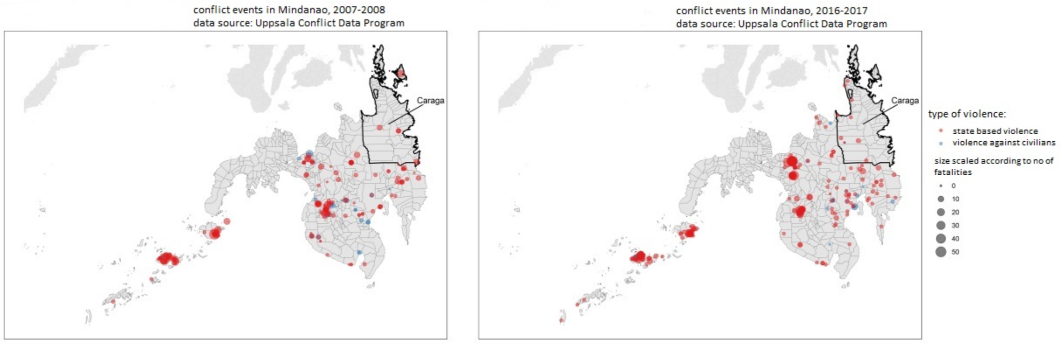
The project approach reflects the findings of international project evaluations in fragile contexts: effectively improving basic government services (outcome) can, with careful conflict-sensitive planning and implementation, contribute to improving relations between the government and society (impact). Providing municipal loans generally enables contributions of this kind to be made within the framework of the existing national system for financing decentralised local authorities, thus preventing parallel structures from having to be set up. The project included accompanying advisory measures to increase the conflict relevance of the credit line and the sensitivity of the implementing organisations to conflict. The scope of these measures extends far beyond comparison projects.

The project's objectives were based on the following impact assumption: making financing available contributes to improving the provision of municipal services. This has a positive effect on the socio-economic living conditions of the target group. This gives rise to positive changes in attitudes towards municipal administration and a preference for peaceful forms of conflict transformation. Together they contribute to conflict prevention.



The impact chain is generally plausible. At the same time, however, it is relatively long. This lowers the probability that the project measures will have verifiable effects on the defined objectives at impact level – it can be assumed that general conditions and developments will influence the individual elements of the impact chain independently of the project measures. In addition, the vague wording of the objectives seems too ambitious in view of the complex context of the conflict.

This stands in contrast to a largely unspecific and overambitious objective. Mindanao is characterised by a complex conflict context in which historical periods of conflict, ethnic-religious differences in identity and current socio-economic and political marginalisation intertwine. In this respect, measures to improve the provision of municipal services can only be expected to have a limited impact on the dynamics of the conflict. In addition, the dual objectives of improving living conditions and contributing indirectly to conflict prevention has created some conflicting objectives in the regional focus of the credit line. A substantial portion of the credit line (at least 25%) was reserved for the Caraga region in north-eastern Mindanao. Caraga, on the one hand, had the lowest per capita income in Mindanao at the time of the project appraisal – on the other hand, it was the most stable region. From today's perspective, the project impacts could have been improved if the project had systematically focused on one of these dimensions.



Also problematic is the project's needs-based orientation. The project's development policy objectives focus on poverty reduction and conflict prevention. Compared to alternative FC instruments, market-oriented and primarily demand-based lending seems less suitable in this specific context. There is a risk that particularly poor and conflict-prone municipalities with weak institutional capacities will systematically remain underrepresented in lending – because loan risks and application quality are taken into account in the lending decision (even the timely implementation of the accompanying measure would not have affected this allocation pattern, see below). In this respect, the FC instruments selected do not appear to be the best possible choice in terms of the project objective – the patterns of loan allocation confirm these doubts.

LIP II was initially implemented in the priority area of decentralisation. Following a realignment of the German DC portfolio, the project has been part of the COSERAM (Conflict Sensitive Resource and Asset Management) peacebuilding programme since 2010. Integration has facilitated coordination with other German DC measures. The planned concentration of LIP investments in the priority region of the development cooperation programme (Caraga) was intended to promote the convergence of development cooperation instruments. The effective allocation of the investments reflects this objective to a limited extent only (see above). However, further geographical synergies with TC were only promoted to a limited extent by the LBP within the framework of its autonomous and demand-based lending activities.

A large number of donors were active in Mindanao during the implementation period. The majority have concentrated on areas with a large Muslim population – they are particularly affected by the violence between the MILF and the Philippine government. The harmonisation of the international donor activities was the responsibility of the Regional Office of the National Economic and Development Authority (NEDA); in the FC project, it was the responsibility of the lending LBP to prevent duplicate financing. The evaluation did not identify any redundancies with other donor activities.

By making the investments available through the LBP, the project was directly integrated into the Philippines' municipal promotion strategy. The focus on improving local basic services and peacebuilding was in line with the partner's key strategic goals – in particular the Mindanao Peace and Development Framework Plan 2011–2030 (Mindanao 2020) and the Caraga Regional Development Plan 2011–2016 (RDP). Approval of the project by the coordinating NEDA was initially delayed due to concerns about the reorientation of German DC on peace development and conflict transformation in Mindanao, but was finally issued in the usual way.

Relevance rating: 3

Effectiveness

The project objective (outcome level) aimed to improve the services provided by the municipalities in a conflict-sensitive way. Three indicators were intended to measure project impacts (see table below).

However, two of them are not directly related to the explicit project objectives – instead they involve quality criteria for the planned project implementation and the loan portfolio, which only allow conclusions to be drawn about the targeted use of the funds. Only the third indicator relates to the quality of municipal service provision; contrary to the wording of the objectives, however, it fails to take into account the important criterion of conflict sensitivity. In retrospect, the monitoring system alone does not seem suitable to reliably assess project risks. Given the lack of data at the time of the evaluation, it was not possible to specify alternative indicators. Against this background, effectiveness is assessed on the basis of the original monitoring system coupled with supplementary qualitative evaluations.

Indicator	Status PA, target PA	Ex post evaluation
(1) At least 40% of the investments financed are made by the poorer local governments – levels 4–6 according to the income classification by the Bureau of Local Government Finance (BLGF).	not applicable (definition of the target value 2014), > 40%	Achieved: more than 40% of the financed loans were granted to local governments with BLGF 4 classification.
(2) Non-performing LGU loans account for less than 4% of LBP's total loan portfolio of LGUs	< 4%, < 4%	Achieved: 0% according to the final review in 2014 and according to the random sample (30%) as part of the evaluation (compared with 4% in the LBP portfolio as a whole).
(3) Quality of the LGU services has improved (qualitative indicator)	not applicable, target value set in 2014: "Identification of an improvement".	Partially achieved: qualitative interviews suggest effective project contributions to service improvement.

The project has largely achieved the defined objectives with respect to these three indicators: 8 of 12 municipalities belong to income classification 4 (on a scale of 1 to 6, the latter comprising the poorest municipalities in the country). This is equivalent to around 41% of the total FC funds provided. On the other hand, the project was not able to reach any municipalities in categories 5 or 6; the largest share of the investments was accounted for by particularly prosperous municipalities (category 1; about 43%). In this respect, even though the project achieved a self-imposed objective related to support for relatively poor municipalities, overall it can be assumed that the poverty orientation is comparatively low. Beyond the indicators listed above, it should also be mentioned that the project only complied to a limited extent with the planned focus on the Caraga region: of a total of twelve municipalities, only 2 are located in Caraga.

The non-performing loans accounted for less than 4% of LBP's total portfolio during the implementation period in accordance with the target. The LBP was not able to provide the evaluation team with systematic information on the repayment process of the loans disbursed under the FC project. A non-performing loan was not found in a random sample of four projects (30%) – three out of four loans had already been properly repaid at the time of the evaluation, the fourth loan was about to be repaid under the terms of the loan agreement. In this respect, the quality of the FC-financed loan portfolio appears to exceed that of the LBP portfolio overall (no non-performing loans vs 4% of non-performing loans in the overall portfolio). No information is available about the differences between the LGU loans in this project and other LBP credit lines.

The lack of specification of the third indicator at the time of project appraisal and the current inadequacy of data prevent a systematic quantification of the project impacts on the service provision of the municipalities. Interviews with target group representatives in four municipalities in the random sample confirm the qualitative assessment at the end of the project: anecdotal evidence suggests that the project contributed to improving the provision of municipal services. Local governments used loan-financed equipment to build schools and markets; road construction and rehabilitation not only fostered geographic access to government services, but also facilitated the provision of government emergency relief following environmental disasters.

The positive evaluation of the service provision stands in contrast to the inadequate conflict sensitivity of the measures. As a result of considerable administrative delays by the project-executing agency, the project loan component was completely decoupled from the accompanying advisory component. All municipal loan agreements had already been concluded when the consulting firm was able to start conflict sensitivity training for LBP and LGU. As a result, the project could neither monitor nor ensure the conflict sensitivity of the investments enshrined in the wording of the objectives.

Effectiveness rating: 3

Efficiency

Key financial indicators suggest that the efficiency of the project-executing agency's work remains high. Since the project appraisal, the total capital of the bank has multiplied – the return on equity has risen by five percentage points. There is a slightly positive trend in the percentage of non-performing loans (4.2% at the time of the appraisal vs 4% in 2017). Only the equity ratio has fallen since the project appraisal – from 14% to 12%. During the same period, LBP further strengthened its operational capacities. The number of its branches increased from 340 in 2008 to 379 in 2017, while the number of employees rose from 7,500 to 7,985.

The processing of loan applications also indicates a high level of working efficiency. An average of 5.3 months passed between when the loan application was submitted and when it was approved in the FC project (variance between 1 and 9 months). The period between credit approval and the first disbursement varies greatly – between a few days and several years. However, given the relatively high level of efficiency in processing loan applications, it seems feasible that this is due more to delays caused by local authorities. Qualitative surveys of local government representatives attest to strong customer orientation and an efficient processing process on the part of the LBP.

The allocation efficiency of the project is rated more critically. As already described, the focus was limited to poor municipalities. Beyond the actually defined quota of 40% of the loan amount for relatively poor municipalities, the final allocation pattern was based on the project's demand-oriented approach and autonomous final lending by the LBP. A more comprehensive and/or specific quota system would have undermined these important principles. In this respect, the inadequate allocation efficiency is due more to the choice of instruments (see above) than to their effective and efficient application.

At municipal level, the efficiency of project implementation cannot be assessed in retrospect due to the lack of data: neither the LBP nor the municipalities visited were able to provide detailed information on the use of the loans during the evaluation. However, project visits have shown that individual project municipalities have been able to rent out credit-financed equipment or use it for contract work and thus generate considerable additional income, which in turn indirectly serves municipal development.

Efficiency rating: 3

Impact

The overall developmental objective of the FC project (impact level) was to contribute to improving the living conditions of the population and make an indirect contribution to conflict prevention as a result. In retrospect, the wording of the objectives seems generally appropriate, but clearly overambitious. The indicators identified at the time of project appraisal (see table below) are only suitable to a limited extent for reliably capturing these impacts and are supplemented by qualitative statements.

Indicator	Status PA, target PA	Ex post evaluation
(1) Income and employment effects for indirect target groups (number of jobs)	Not applicable, Target value set in 2014: 500	Partially achieved: the lack of specification of the basis for assessment and the inadequacy of available data do not

		make it possible to consider any development over time since project completion. Supplementary qualitative/quantitative assessments indicate extremely limited local economic effects.
(2) Impacts on the conflict situation in the respective areas	N/A, see section 1 (target value set in 2014: identification of a conflict-sensitive improvement in public services)	Not achieved: the basis for assessing this indicator is unclear – it is not possible to make a direct comparison between the target and actual situation (at the time of the evaluation). Supplementary qualitative/quantitative analyses do not provide any indications of relevant project impacts.

For a more systematic assessment of the targeted development-policy impacts, the evaluation draws on a comparison of 11 project municipalities with socio-economically similar “control municipalities” (one project was implemented at provincial government level and is therefore not included in the comparison). Night-time light emissions serve as an indicator for income development. The indicator is based on the fundamental assumption that core economic activities require electricity and emit light – developmental economic analyses confirm that these emissions correlate closely with prosperity indices. The evaluation of the conflict impacts is based on a comparison of the annual number of violent incidents in project and control communities. These considerations can only capture aggregated project impacts at municipal level. Although these effects correspond to the ambitious wording of the project objective, they appear rather unlikely in view of the limited use of funds. Supplementary qualitative assessments based on interviews in selected project municipalities are used to capture possible project impacts below the LGU level.

The analyses (comparison of trends over time and corresponding multivariate regression analyses) do not provide any evidence that the economic development of the target municipalities varies significantly from that of the corresponding control municipalities – both groups seem to have benefited from a positive and project-independent long-term development trend. Qualitative considerations are consistent with this finding. Although target group representatives point to relevant development contributions of the loan-based investments: construction and rehabilitation measures were able to improve the road connections of around 90 villages. The increased connectivity has significantly reduced local transport costs and damage to agricultural products, thereby also generating positive income effects. However, surveys by the national statistics authority also show that municipalities in extensive parts of Mindanao have developed very similarly over the same period – without access to the FC project services (in the whole of Caraga the prevalence of poverty fell from 54.4% in 2009 to 40.3% in 2012).

The statistical analyses also provide no evidence of effective impacts on the conflict – the number of conflict incidents in the project municipalities is slightly lower than the number in the control municipalities. However, this seems to be primarily a result of the credit allocation. The project municipalities were already relatively more peaceful before the start of the project; these stable municipalities seem to have been over-represented in the allocation. Qualitative interviews also support these findings: target group representatives emphasise that their respective municipalities were largely non-violent even before project implementation – accordingly, violence-reducing effects were neither expected nor achieved at the local level.

To a limited extent, investments in municipal transport and tourism infrastructure also had hardly any avoidable side effects. Individual representatives of the target group in the project municipalities visited point to increased rents and prices for consumer goods, increased traffic density and number of traffic accidents as a result of road rehabilitation, as well as an increase in pollution due to an increase in tourism. There is no evidence of unintended effects on the local conflict context.

Impact rating: 3

Sustainability

In retrospect, the risk assessment of the project at the time of project appraisal remains plausible and appropriate. None of the identified risks to achieving the intended impacts occurred: the context of the conflict did not substantially influence the implementation of the project measures. The macroeconomic and fiscal policy conditions have not deteriorated and the capacity of target communities to repay is high. In this respect, the project – with the exception of the above-mentioned delays in the implementation of the advisory component – was largely implemented on schedule.

Surveys of target group representatives indicate that the improved provision of municipal services in the target communities continues today (around 9 years after the granting of the loan). The evaluation did not reveal any evidence of significant impairments in the long-term operation of the infrastructure and/or equipment that had been acquired. Although representatives of all project municipalities visited highlighted financial challenges in maintenance and operation, all the investments visited were still intact or in use at the time of the evaluation. In addition, the scarcity of funds for maintenance seems to result from unforeseeable developments after project implementation and outside the project's sphere of influence (e.g. inter-party conflicts over the use of funds). Sustainable effects on the overall income and conflict situation of the population cannot be assumed. As described above, however, this is less a question of sustainability than a result of the weak original development policy orientation of the project (see above).

The complementary training measures of the project aimed at improving the capacities and processes of the LBP for work in conflict-prone regions and strengthening the conflict-sensitive investment planning of the municipalities. The evaluation was not able to directly investigate the longer-term integration of this targeted capacity-building; the high staff turnover within the LBP and the municipalities meant that staff previously responsible for the project were not available for discussions. However, it is precisely this fluctuation that speaks against relevant sustainable impacts.

Sustainability rating: 3

Notes on the methods used to evaluate project success (project rating)

Projects (and programmes) are evaluated on a six-point scale, the criteria being **relevance, effectiveness, efficiency** and **overarching developmental impact**. The ratings are also used to arrive at a **final assessment** of a project's overall developmental efficacy. The scale is as follows:

Level 1	Very good result that clearly exceeds expectations
Level 2	Good result, fully in line with expectations and without any significant shortcomings
Level 3	Satisfactory result – project falls short of expectations but the positive results dominate
Level 4	Unsatisfactory result – significantly below expectations, with negative results dominating despite discernible positive results
Level 5	Clearly inadequate result – despite some positive partial results, the negative results clearly dominate
Level 6	The project has no impact or the situation has actually deteriorated

Rating levels 1-3 denote a positive assessment or successful project while rating levels 4-6 denote a negative assessment.

Sustainability is evaluated according to the following four-point scale:

Sustainability level 1 (very good sustainability): The developmental efficacy of the project (positive to date) is very likely to continue undiminished or even increase.

Sustainability level 2 (good sustainability): The developmental efficacy of the project (positive to date) is very likely to decline only minimally but remain positive overall. (This is what can normally be expected).

Sustainability level 3 (satisfactory sustainability): The developmental efficacy of the project (positive to date) is very likely to decline significantly but remain positive overall. This rating is also assigned if the sustainability of a project is considered inadequate up to the time of the ex post evaluation but is very likely to evolve positively so that the project will ultimately achieve positive developmental efficacy.

Sustainability level 4 (inadequate sustainability): The developmental efficacy of the project is inadequate up to the time of the ex post evaluation and is very unlikely to improve. This rating is also assigned if the sustainability that has been positively evaluated to date is very likely to deteriorate severely and no longer meet the level 3 criteria.

The **overall rating** on the six-point scale is compiled from a weighting of all five individual criteria as appropriate to the project in question. Rating levels 1-3 of the overall rating denote a "successful" project while rating levels 4-6 denote an "unsuccessful" project. It should be noted that a project can generally be considered developmentally "successful" only if the achievement of the project objective ("effectiveness"), the impact on the overall objective ("overarching developmental impact") and the sustainability are rated at least "satisfactory" (level 3).