

## Ex Post-Evaluation Brief

### Philippines: Credit Programme to Finance Local Government Investments in Waste Management



<b>Programme/Client</b>	Credit programme to finance local government investments in waste management BMZ no.: 2001 65 951	
<b>Programme executing agency</b>	Development Bank of the Philippines	
<b>Year of sample/ex post evaluation report: 2011*/2011</b>		
	Appraisal (planned)	Ex post-evaluation (actual)
<b>Investment costs (total)</b>	EUR 18.0 million	EUR 17.8 million
<b>Counterpart contribution (company)</b>	EUR 3.0 million	EUR 2.8 million
<b>Funding, of which budget funds (BMZ)</b>	EUR 15.0 million EUR 7.5 million	EUR 15.0 million EUR 7.5 million

\* random sample

**Project description:** This project - 'Credit Line for Solid Waste Management' (CLSWM) - provided refinancing through the Development Bank of the Philippines (DBP) for lending to fund investments (predominantly local government projects) in the waste management sector. It was set up in light of a law on the orderly disposal of refuse ('RA 9003') which came into force in 2001. In total, 15 individual investment measures were implemented under the CLSWM project. The majority of these measures comprised investments in vehicles, in equipment for waste collection and storage, and in heavy equipment, with an average value of EUR 100,000 (ranging from a minimum of EUR 8,000 to a maximum of EUR 5 million). Implementation of two of these projects was coordinated with the TC (Technical Cooperation) local government programme on waste management in the Visayan provinces.

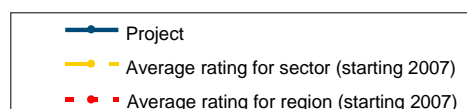
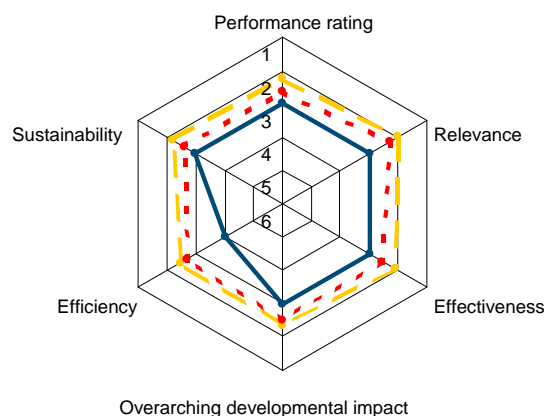
**Objective:** The objective of this project was to provide efficient, needs-based lending to finance local government investments in waste management (the programme objective). By doing so, the programme aimed to make a nationwide contribution to reducing the environmental pollution and risks to health generated by improper dumping and disposal of waste, and to expand the finance sector by strengthening the provision of credit finance for local government infrastructure projects (the overall objective).

**Target group:** The direct target group consists of local authorities and companies wanting to invest in waste management projects. The indirect target group comprises those who are affected by uncontrolled waste disposal and recycling, including informal waste collectors as well as the broader public.

#### Overall rating: 3

Due to the protracted time being taken to implement waste management legislation, local authorities showed very little interest in making substantial investments in the waste management area. Hence most individual investment projects are small in scale, and the impact achieved by these investments therefore varies widely. But some facilities (such as the methane plant at Bacavalley, and waste collection in Olongapo) serve as examples of success for the Philippines, and are thus in keeping with the project's function as a pilot project.

#### Rating by DAC criteria



## EVALUATION SUMMARY

**Overall rating:** Programme objectives were predominantly achieved, and the project succeeded in establishing the business of providing finance for waste management initiatives at the project agency. Despite this, in our **overall view** of the project's success - due to inadequate sustainability in many of the investments that were financed - we have confined our evaluation to 'still satisfactory'. **Rating: 3.**

**Relevance:** The way in which the programme's objectives were structured, together with the programme's planning and design, suitably reflected the lack of access to long-term investment finance available to local authorities in the Philippines; and, from a conceptual viewpoint, it also addressed the various areas concerned - the environment, public health, local government and the deepening of the financial system - in a convincing fashion. At the time of programme appraisal, the manner in which these areas were linked via the causal chain was considered to be valid; in principle, the causal mechanisms that have been adopted still retain that validity today.

Yet the anticipated level of local government demand for such financing (in the expectation of a speedy implementation of the RA 9003 legislation on waste and the environment) was over-estimated. Sufficient demand was only generated after implementation had been substantially delayed and the programme had been expanded to include private borrowers. Since the programme's planning and design were aligned, in large part, to the RA 9003 legislation, it was – like RA 9003 itself – not well suited to cover the recycling processes that existed in the informal recycling sector. Instead, its approach partly comprised the creation of parallel structures at a local government (i.e. 'barangay') level.

The importance of setting up organised waste disposal sites (sanitary landfills, SLF) for the overall objective – which was to reduce the environmental pollution and health risks caused by improper dumping and disposal of waste - is beyond question. However, the majority of the individual investments that were undertaken either did not target solid waste management (SWM) or did not make the existence of such landfills a precondition, and this clearly limited the project's relevance.

The project accorded with the development strategy of the Philippines and was a useful complement to the 'Solid Waste for Local Governments' (SW4LGU) GIZ project in the Visayas. Support for local authorities (Local Government Units, LGUs) and the environment represents an important priority area for the activities of other donors as well (e.g. the World Bank, Japan Bank for International Cooperation (JBIC), and the Asian Development Bank (ADB)). However, for political reasons German Financial Cooperation (FC) with the Philippines is presently suspended.

Considering the good fit of the CLSWM project with the development strategy of the Philippines as well as the comprehensive scope and validity of the objective structure used,

whilst simultaneously taking into account the poor estimation of demand, we have judged relevance overall as 'satisfactory' (Sub-Rating: 3).

**Effectiveness:** The DBP is fulfilling its funding role very well. In its lending to local authorities, as well as its lending in the solid waste management (SWM) area, the DBP is showing positive portfolio development. Both of the relevant programme objective indicators achieved their target values, as did the indicator for arrears in the Local Government Unit loan portfolio. But since the programme ended, ongoing systematic monitoring of the CLSWM programme's impact has not continued. However, since the relevant specialists in the Project Development department still maintain their original functions and there has been no significant movement of staff, knowledge on the development of the programme is still available. The programme objectives on developing the finance system are therefore considered to have been achieved.

The objective indicators set for the investment projects that were financed were, when weighted by volume, only 61% achieved, and are therefore considered not to have been met. On a positive note, in individual cases the DBP broke off its cooperation with LGUs when it emerged that the investments being undertaken did not conform to the standards originally agreed. Adopting this position – together with isolated interventions which were made by KfW – served to counteract (and, in some cases, completely avoid) adverse effects at the individual investment level. Nevertheless, the impact achieved by individual investments varies widely. On one hand, for example, the landfill gas utilisation facility at Bacavalley would satisfy even European standards and would receive a very good individual assessment rating. On the other hand, the condition and the utilisation of the waste collection facilities (waste collection vehicles and waste containers) in the Mandaue LGU are unsatisfactory and, in many places, equipment is no longer functional after five years' use. Certain individual investments served as model projects and achieved such a high level of developmental impact that the borrowers concerned even received visits from other LGUs; for this reason a multiplier effect is now anticipated.

With regard to the impact on health achieved by the improvements in waste collection, the project reached its indirect target group as far as practically possible. However, the situation has scarcely improved for those living on or near the landfill sites. Overall, and partly due to the lack of individual financed investment projects, the project has not reached its target group to the extent that was anticipated.

Because three out of four programme objective indicators were satisfied, but the project failed to reach its indirect target group to an adequate extent, we have judged the effectiveness of the CLSWM project overall as 'satisfactory' (Sub-Rating: 3).

**Efficiency:** The DBP is well organised in its processes and achieves a very high level of production efficiency. Borrowing conditions are, as far as possible, adjusted to reflect the loan term required and the risk classification for the investment, and loans are being repaid

in an orderly fashion. In isolated cases, the facilities or vehicles which are the subject of the investment have been used for periods much shorter than their technical and economic life expectancy or anticipated service life, or shorter than the term of the loan which was granted to finance their acquisition. However, as there is no specific cost accounting for solid waste management at the LGU level, no statements can be made regarding how the actual service life has affected, or is affecting, investment amortisation.

Based on impressions gained during site visits, borrowers in the SWM field are achieving cost recovery levels of around 0%-40% (in the LGUs) and around 70% (in the private sector). We consider the level of cost recovery achieved in the LGUs to be insufficient. Access to long-term financing is enabling the LGUs to have greater financial autonomy. However, it must be stated that the LGUs – perhaps because of their limited cost recovery levels - shy away from taking on debt. Since the participating LGUs have not yet been induced to implement an integrated solid waste management programme, the project's contribution to local authority development in general (i.e. good governance) and to improving living conditions for the community (the indirect target group) has been limited. Hence, taken overall, allocative efficiency is unsatisfactory.

At eight years' duration, programme implementation was comparatively lengthy. It is reasonable to assume that the absence of individual investment projects in sanitary landfill projects (which require intensive consultancy support and preparation) offered good grounds for providing further funding for staff support. On this basis, adequate funding was available for the consultant's assignment to be extended twice.

Due to the poor allocative efficiency, the delays, and the absence of investments in sanitary landfills, we have assessed the overall efficiency of the CLSWM project - despite the very good level of production efficiency seen at the DBP, the project agency - as 'no longer satisfactory' (Sub-Rating: 4).

**Overarching developmental impact:** In retrospect, the CLSWM credit line programme took a pioneering role in the provision of refinancing for solid waste management projects in the Philippines. The DBP is now in a position to offer financing for SWM initiatives in line with demand. The bank uses funding from JICA and, to some extent, from its own resources when offering this product.

As far as providing financing to LGUs in the Philippines is concerned, any effect with regard to expanding the financial sector has been limited in reality to state banks. Hence the structural impact that was being pursued in the Filipino finance sector was constrained from the outset, but success was clearly seen at the DBP.

The CLSWM established a regular expert dialogue between the DBP Program Development Department on one side and state control authorities and advisory units on the other.

This has delivered significant progress in providing expert knowledge and credit technology to support the implementation of RA 9003.

With regard to health, the situation has improved for the population in terms of hygiene, but only in a sporadic fashion. Since refuse is no longer lying scattered around as before (sometimes for extended periods), it offers little in the way of a breeding ground for pathogens and carriers of disease. In those few cases where construction or operational measures have prevented settlement activity and livestock farming at landfill sites over an extended period, substantial improvements have been seen in the hygiene situation. This is especially true for the waste collectors scavenging on the landfill, who are directly affected. The project has had limited environmental impact, since ultimately there were no individual investments in using sanitary landfill for waste disposal and thereby restricting waste emissions. However, one large individual project, Bacavalley Energy, made a substantial contribution (which could not be foreseen at the time of project appraisal) to decreasing landfill gas emissions, and hence to reducing greenhouse gases (i.e. climate protection).

The current waste management situation shows that progress has been made in those LGUs participating in the CLSWM project, but it also confirms the continuing need for extensive investment in solid waste management infrastructure. At the time of project appraisal, the situation was said to be even less favourable (including, for example, irregular refuse collection with no refuse containers, and animals and marginalised waste collectors at large on disorganised rubbish dumps). The programme approach was appropriately designed to raise awareness on a broad front over the availability of financing for SWM investment projects.

Considering the project's structure-building impact in the area of refinancing for solid waste management projects, but also taking into account the limited gains made in its health, environmental and local government objectives, we have judged the overarching developmental impact of the CLSWM project overall as 'still satisfactory' (Sub-Rating: 3).

**Sustainability:** With a capital adequacy ratio (CAR) of 20.94%, the DBP finds itself in a secure financial situation. Even if it proved necessary to write off loans in default, this level of capital coverage is considered sufficient. Support for LGUs and for environmental projects both fall under the DBP's funding remit, and have now become part of its core business. The DBP is fulfilling its funding role successfully and efficiently. There are also signs that the Government of the Philippines, as the owner of the DBP, will prioritise this funding area even more strongly in the future.

The fact that the DBP currently has seven sanitary landfill financing projects in the pipeline shows that there is now interest among a scattering of LGUs in actually implementing the standards set out in law, representing an important precondition for the sustainable operation of the investment projects being financed.

To the best of our knowledge, the CLSWM project was the first financing line in the SWM area in the Philippines; it has served as a pilot project, and has made a significant contribution to the implementation of a sustainable system of waste management. However, to achieve the wider effect of an integrated solid waste management system in the Philippines, greater political will and increased implementation capacity will be crucial.

At those investment projects that were visited, the standard of operation and servicing observed points to a level of sustainability which, in most cases, either fails to meet expectations or is clearly unsatisfactory. This applies in particular to the LGUs, as they are the main operators of SWM systems in the Philippines, whereas investments by private operators are comparatively better in this respect. Local government budgets frequently fail to include separate lines for the costs of servicing the facilities which have been financed.

In spite of the shortcomings identified in the sustainability of the investment projects for which financing has been provided, and despite the continuing lack of political interest in solid waste management, we have assessed the overall sustainability of the CLSWM project - especially in view of the DBP's secure financial position, its continuing focus on environmental financing, and noticeable growth in interest on the demand side - as 'satisfactory' (Sub-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:

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

Ratings 1-3 denote a positive or successful assessment while ratings 4-6 denote a not positive or unsuccessful 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. Ratings 1-3 of the overall rating denote a "successful" project while ratings 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" (rating 3).