

# An Overview of Public and Private Sector Capacities for Environmental Infrastructure in the Philippines



**GEF/UNDP/IMO Regional Programme on  
Partnerships in Environmental Management  
for the Seas of East Asia**

**AN OVERVIEW OF  
PUBLIC AND PRIVATE SECTOR CAPACITIES  
FOR ENVIRONMENTAL INFRASTRUCTURE IN THE PHILIPPINES**

February 8, 2005

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## ACRONYMS

ACC	Asian Conservation Company, Inc
ADB	Asian Development Bank
APL	Adaptable Program Loan
ARMM	Autonomous Region of Muslim Mindanao
BFAR	Bureau of Fisheries and Aquatic Resources
BOD	Biological Oxygen Demand
BOT	Build Operate Transfer
CHED	Commission on Higher Education
CLF	Countryside Loan Fund
CP	Cleaner Production
CT	Clean Technologies
CW	Credit Worthy
DA	Department of Agriculture
DBP	Development Bank of the Philippines
DENR	Department of Environment and Natural Resources
DepEd	Department of Education
DILG	Department of Interior and Local Government
DOF	Department of Finance
DOH	Department of Health
DOST	Department of Science and Technology
DP	Discharge Permit
DPWH	Department of Public Works and Highways
DTI	Department of Trade and Industry
ECC	Environmental Compliance Certificate
EcoGov	The Philippine Environmental Governance Project
EI	Environmental Infrastructure
EIA	Environmental Impact Assessment
EIS	Environmental Impact Statement
EISCP	Environmental Infrastructure Support Credit Program
EO	Executive Order
EUFS	Environmental Users Fee System
ETV	Environmental Technology Verification
GFI	Government Financing Institutions
HUC	Highly Urbanized Cities
IA	Implementing Agencies
IATAC	Inter-Agency Technical Assistance Committee
ICG	Internal Cash Generation
IPCLP	Industrial Pollution Control Loan Program
IRA	Internal Revenue Allotment
JBIC	Japan Bank for International Cooperation
KfW	Kreditanstalt für Wiederaufbau
LBP	Land Bank of the Philippines
LCF	League of Corporate Foundations
LGC	Local Government Code

LGU	Local Government Units
LGUGC	LGU Guarantee Corporation
LGUIPDF	Local Government Unit Private Infrastructure Project Development Facility
LGU-UWSP	Local Government Unit Urban Water Supply and Sanitation Project
LINAW	Local Initiatives for Affordable Waste Water project
LLDA	Laguna Lake Development Authority
LOGOFIND	Local Government Finance and Development Project
LWUA	Local Water utilities Administration
MDF	Municipal Development fund
MOA	Memorandum of Agreement
MRF	Materials Recovery Facility
MWCI	Manila Water Company, Inc.
MWLFI	Municipal Water Loan Financing Initiative
MWSS	Metropolitan Waterworks and Sewerage System
NCW	Non Credit Worthy
NEDA	National Economic and Development Authority
NG	National Government
NGO	Non-Government Organizations
NRO	NEDA Regional Offices
NWRB	National Water Resources Board
ODA	Official Development Assistance
PBE	Philippine Business for the Environment
PBSP	Philippine Business for Social Progress
PCW	Pre-Credit Worthiness
PD	Project Development
PDMF	Project Development and Monitoring Fund
PEPP	Philippine Environment Partnership Program
PFI	Private Financing Institutions
PDF	Project Development Fund
PIA	Philippine Information Agency
PWRF	Philippine Water Revolving Fund
RCBC	Rizal Commercial and Banking Corporation
RCF	Retail Countryside Fund
RDC	Regional Development Council
RPDO	Regional Project development Office
RW2SP	Rural Water Supply and Sanitation Sector Project 2
RWS3P	Rural Water Supply and Sanitation Sector Project 3
SCW	Semi Credit Worthy
SME	Small and Medium Enterprises
TAG	Technical Assistance Group
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
USD	United States Dollar
WATSAN	Water and Sanitation

WB	World Bank
WD	Water District
WDDP	Water District Development Project
WDG	Water Development Group
WDF	Water Development Financier
WSS	Water Supply and Sewerage

## EXECUTIVE SUMMARY

The GEF/UNDP/IMO Regional Programme on Partnerships in Environmental Management for the Seas of Asia (PEMSEA) commissioned the Philippine Business for the Environment to prepare a country overview of public and private sector capacities for developing and financing environmental infrastructure (EI) projects in the Philippines. The output of the study will serve as input to the conduct of a feasibility study for the formulation of a Project Preparation Revolving Fund for environmental infrastructure improvement projects in the East Asian region.

The study focused on environmental infrastructure improvements for water, sewage, sanitation, industrial and agricultural waste management. Specifically, it aimed to do the following: a) identify the key stakeholders in EI project development and financing, b) determine the relevant environmental infrastructure policies, strategies, priorities, programs/projects of key stakeholders; c) assess the existing capacities to develop and finance EI projects; and d) surface major barriers/constraints to the development, implementation and financing of EI projects.

Data gathering involved a combination of document review, internet research and key informant interview. The study relied heavily on secondary data, particularly from document review and internet research, in generating the various EI programs and facilities, existing legislations and policies on EI, and implementation issues and concerns. The desk research was complemented by key informant interviews in the key agencies in the water sector.

Current EI financing programs on water are targeted to Small and Medium Enterprises (SMEs), and to a large extent, Local Government Units (LGUs). For both groups, actual access has been rather limited due to a host of factors that include the following: low environmental awareness and consciousness among industries, LGUs and final end-users, lack of knowledge on EI technologies and their potential triple bottomline benefits, weak capacity to prepare proposals and meet documentary requirements, the instability and poor creditworthy standing of many SMEs and LGUs, inconsistent and ineffective enforcement of environmental laws and regulations, among others. The present EI financing facilities and products designed for SMEs and LGUs are not found to differ significantly from other existing commercial loan packages. Financing terms are perceived as beyond the financial capacity of SMEs. Although most loan facilities offer variable interest rates and short repayment period, particularly for LGUs, loan requirements are found to be too many and difficult to comply with, while efficiency in loan processing is quite low.

Quite obviously, the capacity to prepare good proposals is a major constraint to SMEs and LGUs in accessing available EI financing resources. Project development facilities are mostly sponsored by government and targeted

mainly for LGUs. Despite the seeming huge demand for project development assistance, the performance of project development facilities has not been too impressive. Cases of Project Development Funds (PDFs) for LGU closing down or at risk of being cancelled were noted mainly on account of the low volume of takers. The long-drawn out process of project development -- which can take anywhere from six months to one year -- could be a key factor. LGU participation in project development is seen as an investment activity for LGUs, with their most capable staff getting involved in the process on top of the other counterpart resources they are required to put up. Ultimately, it is the LGUs' low appreciation and regard for the environment and of their role in environmental protection that makes them shy away from available EI financing and PD facilities.

To improve the access to and performance of EI financing and PD facilities, the following strategies are put forward:

- *Strict and consistent enforcement of environmental laws and legislations for SMEs, LGUs and final end-users.* The mandates of LGUs for water quality management have been clearly spelled out in the Clean Water Act. They, too, should be closely monitored in terms of how well they are keeping to their mandated functions. Corollarily, a concerted information-education-communication (IEC) campaign on the Philippine Clean Water Act may be necessary to inform concerned agencies and stakeholders of their roles and responsibilities, as well as the sanctions they will face in case of non-compliance.
- *Conduct continuous training on environmental management, PD for environment related projects and technical courses on EI water for LGUs and SMEs.* For the LGUs, capacity building programs should not only focus on the executive but also include the members of the local legislative councils or the Sanggunian. Technical training or orientation on cleaner production and EI technologies will help raise the level of knowledge, and interest, of SMEs and LGUs on EI. There is need to correct the general impression that EI is nothing more than an added cost to the proponent, losing sight of the many financial, economic and ecological benefits it produces not only for the organization but for the larger community.
- *Pursue IEC programs for households to enhance their awareness on sewage and sanitation,* and stimulate the need to connect to existing sewerage systems.
- *Develop a database portal on EI that includes a list of proven EI technologies, suppliers, consultants/experts,* among others. The EI database should be easily accessible to SMEs and LGUs. The database can serve as a useful guide to SMEs and LGUs which embark on EI projects. If not yet available, a user-friendly EI specific PD toolkit can be developed as part

of the capacity building and social marketing initiatives for EI. While PD materials on EI are available, these are mostly on WATSAN. (i.e., water and sanitation).

- As the price of EI technologies is a prime consideration, it might help to *develop, pilot and/or commercialize low cost but effective EI technologies*. The Local Initiatives for Affordable Waste Water (LINAW) Project of USAID is a good case in point. Perhaps the Department of Science and Technology (DOST), or technical-vocational institutions in the country, can embark on R&D for EI technologies that are more applicable to the Philippine situation.
- Study the possibility of *setting up common wastewater treatment facilities, or sharing of a company's facility with other neighboring establishments for a fee*, among SME establishments within industrial parks, resort areas, and other similar clusters. This will help reduce cost and give incentives to companies that could share their EI facilities, e.g. wastewater treatment, with neighboring SMEs.
- *Provide an integrated package of assistance to SMEs and LGUs*. EI loan financing should be viewed differently from regular commercial financing facilities. Provision of technical assistance in all stages of the project would help enhance the viability of the proposed project and facilitate capacity building or technology transfer to borrowing organizations. In view of the limited resources available, current EI facilities for SMEs can be made to focus on highly pollutive industries, combined with a grant component that lending institutions may seek from donor agencies or from existing PD facilities.
- *Pursue strategies to enhance the operational efficiency of EI financing facilities and institutions*. This may include streamlining of coordination processes among agencies involved in EI project implementation. There may also be a need to work with the Bangko Sentral ng Pilipinas to come up with a standard policy requiring banks to compel their clients to comply with environmental guidelines. As an immediate measure, the PEMSEA may initiate discussion of the issues/findings of this study among members of the financial/banking community and generate their views and insights on how to overcome the existing barriers to EI investments and financing.

#### *On the setting up of future EI financing and project development facility*

- Convene a technical working group with members mostly coming from the GFIs, and other identified stakeholders for EI to discuss whether there is a need for a revolving fund for EI given the existing situation, and to flesh out the details of the revolving fund if this is found necessary.
- Pilot test an EI financing mechanism that may evolve from the group's recommendations



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# 1. Introduction

The GEF/UNDP/IMO Regional Programme on Partnerships in Environmental Management for the Seas of Asia (PEMSEA) commissioned the Philippine Business for the Environment to prepare a country overview of public and private sector capacities for developing and financing environmental infrastructure projects in the Philippines. The output of the study will serve as input to the conduct of a feasibility study for the formation of a Project Preparation Revolving Fund for environmental infrastructure improvement projects in the East Asian region.

## Objectives and Focus of the Study

As specified in the project Terms of Reference, the specific objectives of the project are as follows:

- Identify key stakeholders in EI project development and financing
- Determine relevant environmental infrastructure policies, strategies, priorities, programs/projects of key stakeholders
- Assess existing capacities to develop and finance EI projects
- Surface major barriers/constraints to the development, implementation and financing of EI projects

In particular, the study focused on environmental infrastructure improvements for water supply, sewage, sanitation, industrial and agricultural wastewater management.

## Methodology and Scope

In assessing the current situation for EI financing and project development, the study took the perspectives of both providers of EI financing and PDF services as well as that of the recipients/users/proponents of EI financing and PDF.

Assessment of EI financing and PD experiences looked into the following:

- Profile of existing EI financing facilities
- Performance of EI financing facilities
- Barriers/difficulties to availment of program services
- Implementation issues and constraints

The study concludes by providing a set of recommendations to improve access to and utilization of EI financing and PD programs.

Data gathering involved a combination of document review, internet research and key informant interviews. A major constraint was the limited timeframe and availability of key informants. Thus the study relied heavily on secondary data, particularly from document review and internet research, in generating the various EI programs and facilities, existing legislations and policies on EI, and implementation issues and concerns. The desk research was complemented by key informant interviews in the relevant agencies that include the following: Development Bank of the Philippines (DBP); Land Bank of the Philippines (LBP); United States Agency for International Development (USAID); Kreditanstalt für Wiederaufbau (KfW) of Germany; Metro Manila Waterworks and Sewerage System (MWSS), Maynilad, Manila Water Company, Local Water Utilities Administration (LWUA), Rizal Commercial and Banking Corporation, League of Corporate Foundations - Mirant Foundation, and the Philippine Business for Social Progress (PBSP).

## **2. Review of Policies, Current Initiatives and Trends in the Water Sector**

Rising population growth, rapid urbanization, economic and industrial expansion has put increasing pressure on the country's natural and environmental resources, particularly water resources. The deteriorating quality and utilization of the country's water resources has prompted government to pass the Water Crisis Act in 1995 giving government special powers to reorganize sector agencies, induce greater private sector participation and improve the overall institutional environment for water resource management. Almost a decade after, the Philippine Clean Water Act of 2004 was passed laying down the framework for water quality management in the country.

The 2004 Philippine Environment Monitor states that, as of 2003, 86 percent of the total population has access to improved water sources, with 79% and 91% access in rural and urban areas, respectively. However, access to piped water remains low, with an estimated 65% of households in large urban areas receiving piped water. Increasingly, access to clean water is becoming an acute seasonal problem in many urban and coastal areas. Poor water quality has large economic and quality-of-life costs in terms of health impacts, potable water costs, foregone tourism revenues, lost fisheries production, etc. Sanitation and sewerage remain problematic, with only one percent of the total population connected to sewerage systems.<sup>1</sup> Most use open drains, septic tanks and pit latrines to dispose off liquid and human waste. In urban areas, discharge of domestic waste water is a major source of water pollution. Except in industrial parks, centralized municipal wastewater treatment plants are virtually non-existent. Thus, many establishments, e.g. high-rise residential and office buildings, shopping malls, schools, hospitals, factories, livestock processing plants, residential communities, have to put up their own wastewater treatment plants. Over 36% of the Philippines' river systems are classified as sources of public water supply and up to 58% of groundwater sampled is contaminated with coliform and needs treatment.

The sector is also beset by the lack of accurate water usage monitoring and large amount of "unaccounted-for-water." Losses are due to leaks in distribution pipes, inefficient metering and poor administration.

In response to these pressing problems, the government has initiated a number of policy measures. The major ones are presented in the succeeding sections.

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<sup>1</sup> Philippines Environment Monitor, <http://siteresources.worldbank.org/INTPHILIPPINES/Resources/16-38-BrownEnvr.pdf>, viewed on 14 September 2005

## Key Policies/Reforms in the Water Sector

The Water Code of the Philippines was passed in 1976 to govern the ownership, appropriation, utilization, exploitation, development, conservation and protection of the country's water resources. The same law created the National Water Resources Board (NWRB) to administer and enforce the Water Code. The Code reflects past efforts to adopt a more holistic perspective. Recent policies are generally supportive of an integrated approach to managing the country's water sector. The main challenge, however, has been to implement an integrated approach in a largely fragmented sector where more than 30 government institutions are involved either in water resource management or service delivery. As the mandated body for water resource management, the NWRB manages the country's water resources through the water rights system. Strengthening NWRB as part of the effort to strengthen water resource regulation has been vigorously pursued. Executive Order (EO) 123 was approved by the President in 2002 reconstituting the composition of the Board to include agencies that are non-claimant to the resource. There are two functioning river basin organizations: the Laguna Lake Development Authority and Agno River Basin Commission.

The enactment of the Local Government Code in 1991 mandated the devolution of major central government responsibilities to local governments. Improving water governance in the country is among those regarded as an urgent need. In the first National Water Summit of 1994 a water supply and sanitation policy and strategy were articulated within the purview of devolution as envisioned in the Local Government Code. In 1995, the passage of the Water Crisis Act gave government special powers to reorganize sector agencies, induce greater private sector participation and improve the overall institutional environment. However, implementation of policy reforms to rationalize the sector in the context of devolution has been slow mainly because of the varying levels of preparedness of local governments.

With responsibility for planning, financing and managing implementation of water supply now devolved to local governments, there is considerable challenge to convince local governments to invest in water or at least include water in their development priorities, including the challenge to enforce rational tariff and subsidy policy. The Government has taken major steps to make financing more accessible to local governments. Furthermore, putting in place a regulatory framework is among the priority areas for reform to improve efficiency in water service delivery.

### *The Philippine Clean Water Act of 2004 (RA 9275)*

The enactment of Republic Act 9275, otherwise known as the Philippine Clean Water Act, laid out a more integrated policy and regulatory framework for the management of water resources in the country. The Act seeks to, among

others: a) promote environmental strategies and the use of appropriate economic instruments and of control mechanisms for the protection of water resources; b) promote commercial and industrial processes and products that are environment friendly and energy efficient; c) encourage cooperation and self-regulation among citizens and industries through the application of incentives and market-based instruments and to promote the role of private industrial enterprises in shaping its regulatory profile within the acceptable boundaries of public health and environment; d) and encourage civil society and other sectors, particularly labor, the academe and business to undertake environment-related activities in their efforts to organize, educate and motivate the people to address pertinent environment issues and problems at the local and national levels.

The Act also defines the institutional mechanism for policy enforcement and implementation. The following are the key stakeholders and their responsibilities for water quality management:

- DENR - lead agency responsible for the implementation and enforcement of the Act
- National Water Resources Board (NWRB) - assist the DENR in designating areas as water quality management areas
- Local Government Units - share the responsibility with DENR for the management and improvement of water quality within their territorial jurisdictions
- Non-Government Organization - Participate in the formulation of appropriate incentives for the adoption procedures that will preserve and protect water bodies through the introduction of innovative equipment and processes that reduce it not totally eliminate discharge of pollutants in the water bodies
- Business sector - same as NGO
- Department of Public Works and Highways (DPWH), through its attached agencies such as the MWSS and LWUA, and other urban water utilities, provide sewerage and sanitation facilities and the efficient and safe collection, treatment and disposal of sewage within their area of jurisdiction
- Department of Agriculture (DA) - formulation of guidelines for the re-use of wastewater for irrigation and other agricultural uses and for the prevention, control and abatement of pollution from agricultural and aquaculture activities.
- Bureau of Fisheries and Aquatic Resources (BFAR) responsible for the prevention and control of water pollution for the development, management and conservation of the fisheries and aquatic resources
- Department of Health (DOH) responsible for the promulgation, revision and enforcement of drinking water quality standards

- Department of Science and Technology (DOST), to prepare a program for the evaluation, verification, development and public dissemination of pollution prevention and cleaner production technologies
- Department of Education (DepEd), Commission on Higher Education (CHED), Department of the Interior and Local Government (DILG) and the Philippine Information Agency (PIA) to assist the Department in the preparation and implementation of a national program of water quality management

Among the salient features of the Act are as follows:

- a) *Creation of the Inter-agency Technical Assistance Committee (IATAC)* to evaluate and identify water pollution control technologies that industries may deem appropriate for the purpose of compliance with water quality standards; develop an environmental technology verification (ETV) program for the verification of technologies prior to their introduction to the Philippines; promote the development of cleaner technologies (CT)/cleaner production (CP) programs including water recycling and water re-use in industries; provide and disseminate information on water pollution control technologies, including the best available and practicable technology that will result in the reduction or prevention of pollution; evaluate and endorse technology, machinery, equipment, spare parts and the like that are eligible for incentives. The IATAC is composed of representatives of the Department of Science and Technology (DOST) and other Departments and other concerned agencies, organizations or academic research institutions.
- b) *Preparation of a National Program on Sewerage and Septage Management.* The DPWH, through its relevant attached agencies, in coordination with the DENR, DOH and other concerned agencies, shall prepare a national program on sewerage and septage management. This program shall include a priority listing of sewerage, septage and combined sewerage-septage projects for local government units (LGUs) based on population density and growth, degradation of water resources, topography, geology, vegetation, programs/projects for the rehabilitation of existing facilities and other factors deemed relevant to the protection of water quality. On the basis of such national listing, the national government may allot, on an annual basis, funds for the construction and rehabilitation of required facilities. LGUs may also enter into Build-Operate-and-Transfer (BOT) or joint venture agreements with the private sector for the construction, rehabilitation and/or operation of sewerage and sewage treatment or septage facilities in accordance with existing laws, rules and regulations. LGUs may raise funds to subsidize necessary expenses for the operation and maintenance of sewerage and sewage treatment or septage facility servicing their area of jurisdiction through local property taxes and/or enforcement of a service fee system.

- c) *Mandatory connection to sewerage systems.* Within five years following the enactment of the law, all subdivisions, condominiums, commercial centers, hotels, sports and recreational facilities, hospitals, market places, public buildings and other similar establishments, including households situated in Metro Manila and other Highly Urbanized Cities (HUC) shall be required to connect their sewage line to available sewerage system, either through an agency vested to provide water supply and sewerage facilities or through the concessionaire/s subject to sewerage services charge/fees in accordance with existing laws, rules or regulations unless such sources had already utilized their own sewerage system. If the area is not considered as HUC, DPWH in coordination with DENR and DOH, shall employ septage or combined sewerage-septage management system. DOH, in coordination with other government agencies, shall formulate guidelines and standards for the collection, treatment and disposal of sewage including guidelines for the establishment and operation of centralized sewage treatment system.
- d) *Wastewater Charge System.* The DENR will implement a wastewater charge system not only in the Laguna de Bay area but in all regional industrial centers to provide strong economic inducement for polluters to modify their production or management processes or to invest in pollution control technology to reduce the amount of water pollutants generated. Industries whose water effluents are within standards shall be charged with minimal reasonable amount to be determined by the Department.
- e) *Discharge Permits.* The DENR will require owners or operators of facilities that discharge regulated effluents to secure a permit to discharge. As part of the permitting procedure, the DENR shall encourage the adoption of waste minimization and water treatment technologies when such technologies are deemed cost effective.
- f) *A National and Area Water Quality Management Fund.* These funds will be set up at the national level as well as in identified water quality management areas. At the national level, the fund shall be administered by DENR to finance the following: finance containment and clean-up operations of the government in water pollution cases; guarantee restoration of ecosystems and rehabilitation of affected areas; support research, enforcement and monitoring activities, grant rewards and incentives; support information and education campaign, and such other disbursements made solely for the prevention, control or abatement of water pollution and management and administration of the management areas. At the water quality management area level, the fund is intended for the maintenance and upkeep of the water bodies in the water management area.
- g) *Incentives.* Rewards, monetary or otherwise, are provided to individuals, private organization and entities, including civil society, that have



undertaken outstanding and innovative projects, technologies, process and techniques or activities in water quality management. An incentive scheme is provided for the purpose of encouraging LGUs, water districts, enterprises, or private entities, and individuals to develop or undertake an effective water quality management. The Act provides that industrial wastewater treatment and/or adoption of water pollution control technology, cleaner production and waste minimization shall be classified as preferred areas of investment under the Philippines' Board of Investments and shall enjoy fiscal and non-fiscal incentives.

Fiscal incentives include: i) tax and duty exemption on imported capital equipment. LGUs, water districts (WDs), enterprises or private entities shall enjoy tax and duty free importation of machinery, equipment and spare parts used for industrial wastewater treatment/collection and treatment facilities, subject to certain conditions; ii) tax credit on domestic capital equipment, equivalent to 100% of the value of the national internal revenue taxes and customs duties that would have been waived on the machinery, equipment and spare parts had these items been imported shall be given to enterprises, private entities and individuals; iii) tax and duty exemption of donations, legacies and gifts to LGUs, WDs, enterprises or private entities and individuals for the support and maintenance of the program for effective water quality management. These shall be exempt from donor's tax and shall be deductible from the gross income of the donor for income tax purposes.

- h) In addition, government financial institutions (GFIs) are mandated to extend financial services to LGUs, water districts or private entities engaged in sewage treatment facilities. Moreover, cities and municipalities that will establish or operate sewerage facilities may be entitled to receive grants for the purpose of developing technical capabilities.
- i) The Act requires the DENR to implement programmatic compliance with the environmental impact assessment system for the following types of development: i) development consisting of a series of similar projects, or a project subdivided into several phases and/or stages whether situated in a contiguous area or geographically dispersed; and ii) development consisting of several component or a cluster of projects co-located in an area such as an industrial estate, export processing zone, or a development zone identified in a local land use plan. The Department may allow each regional industrial center to allocate effluent quotas to pollution sources within its jurisdiction that qualify under an environmental impact assessment system programmatic compliance program.
- j) DENR is also mandated to promote and encourage private and business sectors especially manufacturing and processing plants to use water quality

management systems equipment, including but not limited to, industrial wastewater treatment collection and treatment facilities.

The implementing rules and regulations for the Clean Water Act were just completed in May 2005.

*The Laguna Lake Development Authority's (LLDA) Environmental User Fee System (EUFS)*

The Laguna Lake Development Authority (LLDA) is a government agency that leads, promotes and accelerates the development and balanced growth of Laguna de Bay, the largest and one of the most vital inland bodies of water in the Philippines. Laguna de Bay spans some 90,000 hectares and serves the needs of some 6 million people. Begun in 1997, the EUFS is a "polluter pays" system. The Environmental User Fee is paid for the amount of pollution that is discharged into the tributary rivers with the Laguna de Bay Region. It is composed of the fixed fee covering the administrative cost of implementing the EUFS and is based on the volume of wastewater that is discharged and the variable cost that is based on the biological oxygen demand (BOD) loading as well as the volume and concentration of wastewater being discharged.

The EUFS is an instrument that aims to encourage companies to invest in and operate pollution prevention and/or abatement systems. It covers all enterprises within the administrative jurisdiction of LLDA that discharge wastewater into the Laguna de Bay system. These include commercial/industrial establishments, agro-based industries/establishments (such as swine farms and slaughterhouses), and clustered dwellings or residential subdivisions. Under the EUFS, an enterprise is required to obtain a discharge permit (DP), renewable annually, from LLDA. The DP is a legal authorization for the enterprise to discharge its wastewater into the Laguna de Bay. DPs are issued by LLDA only if the wastewater being discharged complies with the effluent standards set by the Department of Environment and Natural Resources (DENR).

LLDA data show that the number of DP applications issued by LLDA has been steadily increasing since 1997. This indicates a growing number of establishments determined to comply with LLDA's environmental standards. The implementation of the EUFS is said to have resulted in the considerable reduction of BOD loading from enterprises that were covered by the system. In 2003, LLDA issued policy guidelines requiring new and existing fast food stores, restaurants and similar establishments in the Laguna de Bay region that discharge liquid waste into the environment to secure their respective DPs from the LLDA. These establishments are required to pay both fixed and variable fees for their liquid waste discharges. An establishment will pay only the fixed minimum fee provided that its effluent volumetric discharge does not exceed 12 cubic meters. Restaurants, food chains and similar establishments, however,

will pay additional fines and penalties if the effluent volumetric discharge exceeds the 12 cubic meter standard. This effluent standard will be used for two years and then the standards will be progressively made stricter.

#### *The National Environmental User's Fee*

The National Environmental User's Fee was adopted in August 2003. Through this fee, the government aims to reduce water pollution and encourage firms to pursue the least-cost means of pollution reduction. The fee applies to all establishments and installations that discharge industrial and commercial wastewater into water bodies and/or land resources. These establishments and installations are required to secure a wastewater discharge permit composed of a fixed fee and a pollutant load-based fee. The former will be based on the average daily volumetric flow of wastewater discharges and the presence of heavy metals in the wastewater. The fee is expected to have the same result as EUFS. Industry sources stated that the government is becoming more and more strict in enforcing environmental laws. However, they are quick to add that the government is not consistent in monitoring and enforcement. Lack of funds is one of the reasons for this institutional barrier on implementing the law.

#### *The Philippine Environment Partnership Program (PEPP)*

On June 2, 2003, the DENR Secretary signed the DENR Administrative Order creating the Philippine Environment Partnership Program (PEPP). The PEPP aims to encourage and support establishments to adopt self-regulation for improved environmental performance through the provision of regulation assistance and other incentives. PEPP rewards establishments with superior environmental performance. Among the privileges and incentives are relaxation of reportorial requirements, simplified requirements for securing environmental clearance certificates (ECC) for an expansion project of an existing establishment, preferential access to appropriate financial assistance from the Development Bank of the Philippines (DBP) and Land Bank of the Philippines (LBP).

Apart from the aforementioned legislations and policies, other initiatives to assist concerned stakeholders in helping improve water quality management are as follows:

- Some foreign companies dealing only with Philippine companies that comply with certain environment standards. More and more foreign companies require their suppliers to show that they are environmentally aware. Thus, Philippine companies, especially exporters, that deal with foreign enterprises are putting up the necessary equipment.

- Environmental awareness. Government and non-government organizations are conducting workshops and seminars to inform industries about the environmental laws, the country's wastewater problem and its effects and possible solutions to the problem.
- Increasing availability of credit facilities. The government has also made efforts to increase the availability of credit facilities for environmental investment, as well as technical assistance on project development/proposal preparation, for both public and private sector institutions. This paper delved into the status of existing environmental infrastructure financing facilities in the Philippines.

### Environmental Infrastructure on Water: Categories and Users

Environmental infrastructure for water can be categorized into two: water supply, sewage and sanitation; and wastewater management.

#### *Water Supply, Sewage and Sanitation*

The different types of EI projects under water supply include construction, rehabilitation or improvement of level III water systems which covers municipal treatment plans, distribution systems and on-site wells and treatment systems. Water sewage is composed of sewage treatment plants, communal septic tanks, secondary treatment, rehabilitation and construction of collection networks. Meanwhile, wastewater systems are comprised of a collection system (ex. sewer), waste water treatment plants and on-site treatment systems (ex. septic systems).

Septage management networks consist of fecal tankers for pumping out septage from septic tanks, septage treatment plants, loading stations for septage disposal at sea.

The major end-users of EI financing for this category include the following:

- a. Metropolitan Waterworks and Sewerage System and its concessionaires - Maynilad Water Services, Inc. for the West Sector of Metro Manila, and Manila Water Company, Inc. for the East Sector.

The MWSS has the jurisdiction, supervision and control over the waterworks and sewerage systems in Metro Manila and some cities/towns in nearby provinces. It covers a total service area of 1,949 square kilometers. In 1997, the MWSS was privatized through a concession-type model. The set-up covered water treatment, distribution, tariff collection, facility improvement and overall management. The strategy called for a division of the Metro Manila water and sanitation system into two geographical concessions for

privatization: the East Zone and the West zone. This allowed for benchmarking between two providers during regulatory reviews and the presence of a “possible replacement operator.” The two concessionaires are Manila Water Company, Inc. for the East Sector, and the Maynilad Water Services, Inc. for the West Sector.

b. LGUs

Pursuant to the Local Government Code and the Clean Water Act, the LGUs are mandated to provide potable water supply services and share with the DENR the responsibility for water quality management. Under the Act, LGUs are to construct and operate municipal sewerage, sewage treatment or septage facilities.

c. Local Water Districts

The Provincial Water Utilities Act of 1973 mandated the formation of local water districts to operate and control local water supply, sanitation and wastewater disposal systems within their areas of jurisdiction. The same act provides for the creation of the Local Water Utilities Administration (LWUA) that shall serve as a specialized lending institution for the promotion, development and financing of local water utilities.

*Industrial and Agriculture Wastewater Management*

This EI cluster includes industrial waste treatment plants, wastewater treatment facilities, pollution abatement facilities, clean technology in industrial processes, end-of pipe treatment facilities, and effluent monitoring equipment. It also covers hazardous waste management system comprising of recycling facilities, treatment facilities, disposal facilities and storage facilities.

For wastewater treatment equipment and facilities, the major end-users are the following:

- a. Manufacturing/industrial plants, particularly the highly pollutive industries such as semiconductor, textile and garment, food and chemical plants.
- b. Residential condominium and commercial buildings/residential subdivisions. Approved building permits nationwide reached 22,483 during the first quarter of 2003, with approved permits for residential buildings totaling 15,545 and for nonresidential buildings, 2,396. Less than one-fifth of these projects will require wastewater treatment equipment. Condominium projects use package type wastewater treatment facilities. Septic tanks are not sufficient for residential subdivisions. There are residential subdivisions that purchase modular type equipment that can be expanded as more

residential owners move into the subdivisions.

- c. Economic zones. There are 58 operating/proclaimed economic zones. Economic zones include industrial estates, export processing zones, free trade zones, tourist/recreation centers, agro-industrial economic zones and information technology parks. Industrial estates, export processing zones and free trade zones may have a centralized wastewater treatment plant for final treatment and the firms in these areas have their own wastewater treatment plant for primary and secondary treatment.

### **3. Profile of EI Financing Facilities**

The main sources of funds for EI improvement projects are development banks, government-managed financing facilities particularly the Municipal Development Fund, Official Development Agencies (ODA) institutions, and the private sector.

#### **Development Banks**

Two key players in EI financing are the Development Bank of the Philippines (DBP) and the Land Bank of the Philippines (LBP).

EI programs of both institutions are either funded through bilateral or multilateral sources, local funds/bank resources, or a combination of both.

The DBP has a separate environmental portfolio that caters to both the public and the private institutions. In 2004, the environmental management portfolio of DBP totaled P2.13B, accounting for 2.76% of the total Bank portfolio. Retail lending formed the bulk with a share of 90%, while wholesale lending contributed 10%.

At present, DBP has three EI financing facilities that include water-related projects, two of which have been made available since 1996. These are: the Industrial Pollution and Control Loan Program (IPCLP) funded by the - KfW; the Environmental Infrastructure Support Credit Program (EISCP) funded by the Japan Bank for International Cooperation; and the LGU Urban Water Sanitation Project (LGU- UWSP) funded by the World Bank and the Nordic Development Fund. The IPCLP and the EISCP are targeted mainly to support environmental investments of SMEs. The LGU - UWSP is exclusive for LGUs. Details of these facilities are shown in Annex A.

The Land Bank has LGU-exclusive EI financing facilities but no EI specific financing window for SMEs although existing financing programs for SMEs, such as the Retail Countryside Fund (RCF) and the Countryside Loan Fund (CLF), can support investments on EI. In addition, the Bank makes it mandatory for borrowers/project proponents to prepare and submit IEE/ECC for projects submitted for RCF and CLF financing.

For LGUs, the Bank has four environmental financing facilities, three of which include water-related projects. These are the Water District Development Project (WDDP) funded by the World Bank, the LGU Support Credit Program (LGSCP) funded by JBIC and the Mindanao Basic Urban Services Sector (MBUSS) Project funded by the ADB. Annex B provides details of these programs.

From the two major development financing institutions there are about nine financing facilities available. Five of these are dedicated for LGUs and four for SMEs.

### *Eligible Borrowers*

Except for IPCLP that targets pre-identified priority industries, DBP EI programs for SMEs are open to any firm in any part of the country. For LBP, programs are open to SMEs whose operations benefit countryside development.

The DBP LGU-UWSP financing facility targets poor communities in 73 cities and 103 first class municipalities outside Metro Manila. For LBP programs, MBUSS is open only to Mindanao LGUs, LGU-SCP is available to any province, city or municipality nationwide, and the WDDP targets all LGUs nationwide except Metro Manila.

### *Eligible EI Investments*

Eligible water management projects for DBP EI financing facilities for SMEs are mostly on the acquisition of environment friendly/cleaner production technologies, wastewater treatment and recycling systems/facilities, waste minimization and disposal facilities, environmental/emissions/effluents monitoring instruments and equipment. The facilities also finance projects on occupational health and safety improvements and air pollution control equipment. For LandBank, most of the eligible EI projects for SMEs are on wastewater treatment plants, biogas facility, and water system. For LGU facilities, LBP programs cover water systems, sewerage, sanitation, drainage and wastewater treatment, sewage treatment system, flood control, and sludge collection/treatment facilities, among others. On the other hand, the DBP facility supports investments on a wider range of water-related projects that include: construction/improvement/rehabilitation of Level III water facilities, provision/ improvement of sanitation facilities; construction/improvement of urban drainage; financing of civil works, equipment and supervision; financing of sanitation program; financing of investments in an urban drainage program; and creation of water utilities private sector participation facility.

### *Financing terms*

DBP loans are mostly fixed rates, with interest rates ranging from 9% to 11% for SME loans and 15% for LGU loans. LBP loans to SMEs are offered at either fixed or floating interest rates based on prevailing market rate and subject to negotiation between the proponent/borrower and the Bank. LBP loans to LGUs seem to offer relatively lower fixed rates ranging from 11% to 13%, depending



on the term of the loan. The longer payment period entails a higher interest rate.

Repayment period ranges from short term (less than one year), medium term (1 to 5 years) and long-term (5 to 15 years). Both the DBP and LBP require an equity sharing ranging from 15% to 20% for SMEs and 10% for LGUs. Grace period is from two to three years for LGUs for both institutions. DBP loans for SMEs allow a grace period that ranges from 2 to 5 years. For both banks, commitment fee is anywhere from .25 to .75% per annum on unreleased/undisbursed loan balance.

LBP loans for SMEs are fully secured by tangible collaterals or acceptable guarantees. For the LGUs, acceptable collaterals include: hold-out on deposits, real estate properties; machineries and equipment owned by LGU; deed of assignment on any or all of the following: 20% of the LGU's IRA; LGU's regular income as sourced from its annual budget but not to exceed 20% of its regular income; net profits or income from the project or economic enterprise to be financed.

### *Program Performance*

Based on available data, overall availment and utilization of EI financing facilities seem to be high for SMEs and relatively low for the LGUs. The DBP IPCLP program indicates that while only 35.7% of the total number of applications has been approved for funding, the financing requirements are relatively large that program funds have been fully used up. This may suggest that the existing size of the facility is insufficient to meet demand for funds. However, the interview with a DBP official revealed that most of the approved borrowers for EISCP are large companies, with very few SME really able to access the program funds.

An ex-post evaluation of the IPCLP I<sup>2</sup> conducted in 2004 by KfW indicates overall satisfactory performance in terms of effectiveness in meeting program outcomes and outputs. From an efficiency perspective, the program was evaluated to be low. Average processing time of the sub-loans is about four times that of standard loans processed by DBP, with about 2-6 months internal processing time upon submission of complete documents. Altogether, overall implementation period of the facility was 41 months or 23 months longer than the intended duration of 18 months. As pointed out by the study, the bank's organizational structure is extremely bureaucratic and hardly customer-oriented. Staff productivity in terms of loan processing is below average.

A unique feature of the IPCLP I is the provision of a grant for consulting services to support the DBP and potential final borrowers during project

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<sup>2</sup> KfW, Ex-Post Evaluation of the Industrial Environment Protection I Project, 2004.

implementation. The grant financed the services of a German-Filipino consulting team to selected SME borrowers during the implementation phase of the project.

In the case of LBP, the RCF window showed an impressive 100% utilization rate mainly on account of the large number of borrowers attracted to the lower interest rates offered by the program. Per interview with LBP official, access to program funds has favored existing borrowers thus preventing applications from new borrowers. In contrast, the performance of LGU EI facilities has not been as impressive. Availment has been relatively low such that for one facility, the Bank had to cancel to avoid having to pay huge commitment fees.

In any case, data from two DBP projects seem to indicate that demand for EI funds is greater than the available funds.

Table 1  
Program Performance of Selected EI Financing Facilities of DBP and LBP

	Utilization Rate	Approval Rate	Remarks
DBP			
Industrial Pollution and Control Loan Program (IPCLP)- Phase 1	100%	<p>35.7% (25 out of 71 loan applications); but loan releases was 100% of total program funds</p> <p>Breakdown of projects:</p> <p>By type of intervention: 11 - treatment plants 13 - environment friendly technologies</p> <p>By sector: 12 - food sector (inc. 5 pig farms which combined biogas recovery and power generating system) 4 - metal industry 2 - clothing 5 - others (mining, furniture, paper, waste and environment</p>	While the program had many takers; implementation was rather slow because of 13 inadequate capacity to undertake and unwillingness of SMEs to spend on necessary environmental requirements such as the Environmental Compliance Certificate / ECC and FS, and low priority for environmental protection.

	Utilization Rate	Approval Rate	Remarks
		laboratory)	
Environmental Infrastructure Support Credit Program (EISCP) - Phase 1	98%	Financed 21 projects using up 98% of the program fund; remaining 2% was not utilized because of time constraint. The 2% program balance was absorbed in Phase 2.	<p>Most of the borrowers were big corporations/industries with established documentation systems which can afford to hire consultants/or have in-house capacity to prepare technical requirements such as the ECC or prepare feasibility studies.</p> <p>Program was also open to LGUs for water supply and sanitation projects, however there have been no LGU borrowers for this facility as there are other LGU dedicated facilities also available within the bank's portfolio.</p>
LGU Urban Water Sanitation Project (LGU-UWSP)		<p><i>Per downloaded info:</i> 41.4% (29 of 70 FS/proposals; of 29 approved, 14 were actually implemented)</p> <p><i>Per interview:</i> WB financed preparation of 100 FS, but only 9 proceeded to construction phase.</p>	<p style="text-align: right;">14</p> <ul style="list-style-type: none"> <li>• The DBP sub-project includes costs of feasibility study, technical design and construction of the water facility.</li> <li>• LGU have a hard time completing/meeting the documentary requirements of the program</li> <li>• LGU decisions are highly politicized, especially in tariff setting which reflects the true cost of the survey. Politicians are usually unwilling to increase tariff as this</li> </ul>

	Utilization Rate	Approval Rate	Remarks
			would affect their political interest. Change in administration given a three year term of office of the LCE.
LBP			
Retail Countryside Fund (RCF), IBRD-WB	100%	90-92% availment rate	<p>RCF fund is offered at special rate (lower than regular rate). However, this program is limited to SMEs (with assets not exceeding 15 P1 Million).</p> <p>At present, the RCF I and II funds are fully utilized, and using 2<sup>nd</sup> generation fund (funds coming from repayment from 1<sup>st</sup> releases).</p> <p>There's a reallocation from CLF III program fund amounting to P 15Million made available for RCFII programs.</p>
Countryside Loan Fund (CLF)	100%	Almost 100% of proposal applied for this program are approved since the PFIs ensures that all project being applied to the program meet the requirements of LBP, i.e., documentary requirements and environmental requirements.	<p>At present, the program is using reflows or 2<sup>nd</sup> generation fund(funds coming from repayment from 1<sup>st</sup> releases).</p> <p>Most EI projects are component of the entire project.</p> <p>.</p>
Water District		54% ao August 2005	Project is coordinated with

	Utilization Rate	Approval Rate	Remarks
Development Project (WDDP) -			DILG for the technical assistance component. Poor coordination is causing delays in implementation.
LGU-Support Credit Program	60% as of August 2005		
MBUSS - Mindanao Basic Urban Services Sector	8% as of August 2005		The program design requires that the proponent LGU be first capacitated by DILG as part of the loan requirements. With delays in release of funds on DILG side, conduct of capacity building and community organizing activities is also delayed.

### *Pipeline Projects*

DBP is in the process of negotiating for the setting up of an Environmental Development Program Fund and mobilizing private investments for water and sanitation. In October 2004, the DBP signed a memorandum of understanding with JBIC, USAID, LGUGC for the establishment of the Municipal Water Loan Financing Initiative (MWLFI) and the Philippine Water Revolving Fund (PWRF). Under the MOU, EISCP II will allocate P510M for the MWLFI to finance water and sanitation projects planned and implemented by qualified LGUs and water districts. The LGUGC also allocated the same amount for its guarantee coverage, bringing to P1.02B the total available funds for water and sanitation projects under the MWLFI.

The DBP has also partnered with the USAID and JBIC for the research and development of the Philippine Water Revolving Fund (PWRF), a new special fund for water and sanitation projects by mixing public and private funds. As local partner of JBIC and USAID, DBP will be a key player and is envisioned to support research and development that will facilitate the establishment of sustainable scheme under the PWRF.

Both the MWLFI and the PWRF are to be implemented in the country under the Clean Water for People Initiative, a joint endeavor between the governments of the United States and Japan. The initiatives are aimed at mobilizing private funds to water/sanitation projects with long-term and less risk, in line with President Arroyo's agenda of supplying water to all barangays. The Philippine

experience in both MWLFI and PWRP will be the first model case of mobilizing private funds for water and sanitation projects in Asia.

### **Official Development Assistance**

Among the major ODA sources for water-related EI projects are the World Bank, JBIC, KfW, ADB, and USAID.

EI programs of the World Bank, JBIC and KfW come in various modes - either to provide funding source for EI financing facilities executed by development banks such as DBP and LBP, or to directly finance and provide capacity building assistance to national and local government institutions which undertake EI projects.

#### *World Bank*

Currently, the WB has three EI-related financing projects for LGUs. These are the LGU Urban Water Sanitation Project (LGU-UWSP) implemented by the DBP, the Local Government Finance and Development Project (LOGOFIND) implemented through the Municipal Development Fund Office, and the Water Districts Development Project (WDDP) executed by the LBP. All projects provide financial assistance on feasibility study preparation, construction and/or rehabilitation, and capability building for operation and maintenance of project constructed facilities.

The LGU-UWSP I and II are financing facilities that aim to assist LGUs to: improve and sustain the provision of water, sanitation, drainage and other environmental services to their urban populations; and build institutional capacity for the planning and management of water and sanitation services at all levels of government. The project consists of two components: Part A or the Water and Sanitation Facilities Component, and Part B or the Technical Assistance Component. The program promotes full cost recovery. The system is to be operated by a private operator under a long-term lease contract with the LGU.

The LOGOFIND is a project of the Department of Finance through the Municipal Development Fund Office (MDFO). It aims to provide long-term financing and technical support to LGUs for the implementation of priority development projects, including social and environmental projects designed to improve sanitation, environment and quality of life of the poor. A detailed description of the program is presented in the section on governance programs.

The WDDP provides financial assistance to LGUs for carrying out trunk capital investments in sewerage, sanitation, drainage and wastewater treatment infrastructure. Trunk investment will finance the feasibility study and detailed design, construction and rehabilitation of sewerage main drains, wastewater

treatment facilities. It will also finance feeder investments in barangays requiring immediate environmental sanitation investment programs such as water supply, sanitation, micro-drains and solid waste collection and disposal.

All three financing facilities target low income or small to medium sized LGUs.

The World Bank has also supported the Manila Second and Third Sewerage Project. The USD35M Manila Second Sewerage Project finances septic management and rehabilitation of sewerage systems in nine cities within the NCR. The Manila Third Sewerage Project, a USD64M project to be implemented from 2005 to 2010 aims to increase coverage from almost zero to 100% in sanitation services, and from about 8% to 30% in sewerage coverage, in the East concession of Metro Manila. The LBP is the borrower while the Manila Water Company, Inc. (MWC) will implement the project.

#### *Japan Bank for International Cooperation*

Aside from directly financing water supply and sanitation, and sewerage projects of government, JBIC also grants development financing facilities through its "two-step loan" to the Development Bank of the Philippines (DBP) and Land Bank of the Philippines (LBP). Such development financing assistance expands outreach to specific sectors or clients and provides more focus on specific target industry such as shipping; small and medium-sized enterprises; mining/service sectors; farmers' cooperative; and local government units (LGUs) for its water supply, flood control, forestry, sewage and solid waste management requirements.

For EI, JBIC provides fund assistance to DBP through the Environment Infrastructure Support Credit Program (EISCP) that is open to both SMEs and LGUs.

#### *United States Agency for International Development*

The energy and environment portfolio occupies a significant percentage in USAID's country assistance program for the Philippines. Of the US\$ 13M annual budget, about 65% goes to the energy and environment portfolio. About 33%, equivalent to about US\$2.8M or roughly P153M annually, is allocated for EI projects.

Priority EI areas include: solid waste management, cleaner technologies, wastewater management, and water supply and sanitation. Its major EI related programs target both LGUs and SMEs. The Philippine Environmental Governance (EcoGov) Project Phase II targets 100 LGUs, mostly in Mindanao, plus the six LGUs of LINAW. The Local Initiatives for Affordable Waste Water Project (LINAW) is a two year project that aims to identify and develop affordable solutions to wastewater pollution and promote septage management and

septage treatment. The technologies pilot tested in LINAW are expected to be replicated in the EcoGov project.

Except for LINAW which finances the pilot testing of small-scale, low cost treatment systems and developing plans and projects for longer term solutions to domestic wastewater challenges in six cities, USAID does not directly finance EI projects. However, they provide capacity development assistance to LGUs in linking with appropriate financing institutions up to the point where they are able to access loans. It gives funding support to the BOT Center's Project Development Facility for LGUs interested in pursuing BOT financing arrangement for their development projects. It also supports policy research and development such as the setting up of a Water Revolving Fund, undertaken by the DBP in collaboration with other agencies such as DOF, NEDA, and the Bankers Association of the Philippines.

In terms of coverage, the EcoGov project has targeted 100 LGUs in priority areas, 60% of which are in Mindanao, plus the six LINAW LGUs located in Luzon, Metro Manila and the Visayas.

So far, none of the 79 LGUs assisted by EcoGov Project I has successfully secured a loan. However, one LINAW-assisted LGU is now ready to sign a loan for a water project after two years of project development and loan negotiation.

#### *Kreditanstalt fur Wiederaufbau (KfW)*

The Federal Republic of Germany, through the KfW is providing financing for environmental investments in the country. Currently, it is a major funding source for the relending programs of the DBP through its Industrial Pollution Control Loan Program (IPCLP) for SMEs and the LWUA for water districts.

IPCLP phase I was open from 1997 to 2001 while the second phase is currently on-going. Eligible projects are pollution reduction investments including improvement in occupational health and safety and/or reduction of raw material inputs for production to cover waste minimization/clean technology in industrial processes. Likewise, installation of cost-effective end-of-pipe treatment facilities and other waste disposal options and investments in equipment to monitor emissions or effluents are also eligible for funding. Target borrowers are SMEs with businesses that fall under its priority sectors. These sectors include the following: metal working; food production; leather tanning; fabricated metal; veneer plywood; meat; fish, fruit and vegetable processing; chocolate, cocoa and confectionery; furniture; carageenan and seaweed; shrimp and prawns; piggery; and slaughter houses.

Its water supply projects with LWUA have been implemented in two phases and aim to upgrade the water supply systems of about 100 water districts.



### *Asian Development Bank (ADB)*

The ADB has been a major partner of the government in its environmental management efforts. It has been a key source of funds for LWUA's relending programs, and two of the LBP's EI programs, namely the Mindanao Basic Urban Services Sector (MBUSS) and Air Pollution Control Credit Facility (APCCF). The latter was closed in 2003 due to low demand. Another ADB facility that is in danger of being closed is the LGU Private Infrastructure Project Development Facility which includes EI investments in its priority projects.

Implemented by the LBPI, the MBUSS is a program that aims to improve the quality of life in urban Mindanao. Relevant EI programs include sanitation, drainage and flood control, low-cost sludge treatment facilities, low cost wastewater treatment facilities, and sludge collection and transportation equipment. Water supply, to include rehab and upgrading of existing source works, treatment facilities and transmission systems, and construction of new source works, deep wells, pumping facilities, low cost treatment facilities and transmission and distribution systems are likewise eligible for financing.

The facility is open only until December 31, 2007 and covers municipalities, cities and provinces in Mindanao with urban population of at least 20,000. Project cost sharing is based on the type of project and LGU classification.

### **Government Programs**

With the devolution of the responsibility for environmental management to LGUs the government has initiated technical and financial assistance programs that would support LGUs capacity to undertake this function effectively. By virtue of the Local Government Code (LGC) of 1991, LGUs can now borrow money from banks, obtain ODA grants, enter into partnership with the private sector through the BOT arrangement, float bonds, etc. to be able to secure necessary financial resources for priority local development projects.

With the looming water crisis in the country, the LGUs role in providing efficient potable water supply as well as in managing water resources has become increasingly important. In parallel with capacity building programs on water resource management, financing facilities on water supply and sanitation have been set up for LGUs, as well as for the construction, rehabilitation and/or operation of sewerage and sewage treatment of septage facilities in accordance with existing laws, rules and regulations. LGUs may also raise funds to subsidize necessary expenses for the operation and maintenance of sewerage and sewage treatment or septage facility servicing their area of jurisdiction through local property taxes and/or enforcement of a service fee system.

To guide LGUs in making revenue mobilization decisions, the government drew up an LGU Financing Framework which defines possible financing strategies for LGUs of different income class. The framework suggests that LGUs in the high income category may explore non-traditional/external funding sources for their projects. The framework further suggests that LGUs in the low income category may be given priority in accessing the Municipal Development Fund, a fund facility under the Department of Finance (DOF), which serves as a mechanism for long-term financing available to eligible LGUs.

The new policy framework for LGU financing provides a graduation mechanism for creditworthy LGUs to access financing from private capital markets, and also extends financing to less credit worthy LGUs.

*The Municipal Development Fund - Local Government Finance and Development Program*

The Municipal Development Fund (MDF) was set up by the national government to provide financial assistance to low-income LGUs in implementing their priority development projects. The MDF is administered by the Municipal Development Fund Office (MDFO) under the Department of Finance. At present, the MDFO is implementing the Local Government Finance and Development Project (LOGOFIND) with financing support from the World Bank. Initial amount of loan was 100 Million USD but was decreased to 60 Million USD. Financing is also obtained from the GOP and it covers the grant portion of LGU projects.

The project assists participating LGUs to expand and upgrade their basic infrastructure, services and facilities, and strengthen their capacities for municipal governance, investment planning, revenue generation, project development and implementation. It also enhances the capabilities of the National Government to provide technical support and long-term financing to local governments through the Municipal Development Fund (MDF). Fund access is demand-driven and follows a first-come-first-serve basis, although priorities are given to marginally and non-credit worthy LGUs (3<sup>rd</sup> to 6<sup>th</sup> income class) for their development projects, and LGU sub-projects that address social and environmental issues. EI improvement projects that can qualify for program financing include the following: municipal water supply system (expansion and rehabilitation), flood control and drainage, and sanitation/ public toilets and combined sewer.

The project is implemented from 1998 to June 2006, with a possibility of a two-year extension.

Term	Amount	Interest Charges
Payable up to fifteen (15) years inclusive of a three (3) - year grace period.	Varies for each LGU and depends primarily on the computed maximum loanable amount/LGU paying capacity.	12% per annum

### *Financing Terms*

Unlike the financing programs from GFIs, the LOGOFIND has a grant component. This makes it very popular among LGUs. For level 1 water supply projects, the project offers the following terms: 40% loan, 50% grant and 10% equity for 4<sup>th</sup>, 5<sup>th</sup> and 6<sup>th</sup> class municipalities. However, for sewage and sanitation, flood control and drainage and level II and level III water supply, loan terms (90% loan and 10% equity, 12% fixed interest rate) are almost at par with the those of DBP and LBP. Another advantage of the LOGOFIND is the non-requirement of FS since all the necessary feasibility information are provided in the sub-project appraisal report that is prepared by LOGODEF team itself.

As with regular loan facilities for LGU, collateral requirement includes the IRA. Thus, far there has been no instance of an IRA intercept.

Repayment performance is generally good.

The project also provides grant technical assistance in all stages of the project cycle, or a handholding type of intervention to LGUs. A common problem that has been encountered is with regards to preparation of the ECC for proposed projects. To address this concern, the LOGOFIND has included assistance in obtaining their ECC. Another problem that has caused delays in implementation of most projects is failure of bidding.

### *Local Water Utilities Administration*

In the past, LWUA has offered financing support and technical assistance to local water districts for the establishment and operation and maintenance of viable local water supply systems. LWUA funds have been considered low-cost and long-term credit. It is a mix of concessionary foreign loans and government equities/subsidies or grants and local borrowings. However, LWUA's financial assistance has been accessed only by financially viable water districts (WDs) while fledgling WDs hardly have access to it. Further, due these concessionary loans, WDs seldom tried other sources of development funds coming from Government Financial Institutions (GFIs)/Private Financial Institutions (PFIs ). With the exhaustion of its capitalization and its domestic borrowing, but without matching local funds, LWUA could not access ODA funds. Further, severe fluctuation in foreign exchange rate has heavily weakened LWUA's capacity to generate earnings for its operation and debt service and to maintain a revolving fund for other WS projects. There is a need to tap domestic capital markets which has been used sparingly with the hope of closing the huge backlog in WS investments in the country.

Given this situation and the on-going reforms in the water sector, LWUA needed to pursue organizational reforms as well. Among them are the following:

- *Increased participation of GFIs/PFIs in financing WS projects.* Traditionally, LWUA has been the only source of long-term credit for WS projects. Because of the impaired lending capacity of LWUA to meet demand for capital funds for WS projects, there is a need to tap private capital markets and credit facilities of GFIs/PFIs.
- *Grant of incentives for improvement and graduation of WDs.* Rationalization of the allocation of scarce resources should consider giving priority in accessing development funds to WDs showing greater potential of improvement and avoid giving premium to WDs unwilling to change for the better.
- *Encouragement of initiatives to improve efficiency of WDs through amalgamation, resource pooling and cost-recovery tariffs.* The need for effective communication and closer coordination with the Local Government Units (LGUs), private/public sectors and local stakeholders cannot be overemphasized to make a project successful. To achieve economies of scale, pooling of resources of the different stakeholders in the community can be initiated through participatory project conception and implementation. The different stakeholders can then have a shared vision and agree on their specific roles and responsibilities. This arrangement will avoid information deficit on the side of the community and promote project advocacy.
- *Improvement of investor confidence in the WSS.* Due the lack of critical information provided to other sources of funds and lack of experience in water projects, many potential investors were reluctant to invest in long-term lending programs for WS projects. The lack of WD rating system made the investors to do their own evaluation and very often the loan is heavily hedged and the perceived risk is passed on to the borrowers.

On February 2, 2004, the President issued Executive Order No. 279 entitled "Instituting Reforms in the Financing Policies for the Water Supply and Sewerage Sector and Water Service Providers and Providing for the Rationalization of LWUA's Organizational Structure and Operations in Support Thereof." The EO provides the creation from its current organizational set-up of the following groups: a Water Development Group (WDG) to classify WDs according to creditworthiness and develop less creditworthy ones to graduate them to creditworthy standing, a Water Development Financier (WDF) to enhance provision of financing for semi, pre and non-credit worthy WDs, and a Technical Assistance Group (TAG) to offer project related technical assistance to GFIs and creditworthy WDs on a competitive basis.

Further, the EO provides that the WDG shall classify the Water Supply Providers (WSPs), among them the WDs, into either creditworthy (CW), semi-creditworthy (SCW), pre-creditworthy (PCW) or non-creditworthy (NCW) and shall develop a graduation plan for non-creditworthy, pre-creditworthy and semi-creditworthy WSPs. The past practice of lending only to viable WDs have marginalized the less creditworthy WDs. Classifying WDs according to

creditworthiness will help rationalize the allocation of funds where the less creditworthy ones will be accessing the concessional funds while the more creditworthy will utilize commercial sources of funds, e.g., GFIs/PFIs.

While its mandate includes the construction of wastewater facilities, the high cost involved in developing and installing such a facility and the anticipated substantial increase in water tariff have constrained LWUA from engaging in wastewater treatment types of projects and instead focus on potable water supply development projects.

As of December 31, 2004, accumulated total loans granted and availed by WDs amounted to P21,475.312 million and P15,542.293 million, respectively.

Apart from its own funds, LWUA's major funding sources in the past and at present are the following: KfW, ADB, JBIC, JICA, LBP, DANIDA, IBRD, AUSAID and USAID. Its new lending programs are financed by KfW, ADB, JBIC, LBP and JICA.

Loan requirements include FS and public hearing. There is no collateral required from the water districts. WD counterpart is fixed at 10% that can either be in financial or labor terms. Repayment period is 25 years, with one year grace period upon completion of the facility construction. Interest rates are set on a staggered basis: 8.5% for 1<sup>st</sup> P2 million, 10.5% for the next P5 million, 12.5% for the next P13 million, 14% for the next P14 million, and 15% in excess of P15 million. Some donor institutions, like KfW, set a fixed interest rate of 12.5% per annum regardless of the loan amount.

Loan utilization or availment has been high at 80%, and repayment rate is 87%.

Common problems encountered include:

- Weak management of water districts
- Overprojected market studies
- Inability of WD to raise counterpart requirement
- Conflict with LGUs, especially in getting their endorsement of the project
- Right-of-way problems

### **Private Sector Initiatives**

Theoretically, private sector financing for EI improvement initiatives may include the following:

- public-private partnerships through the Build-Operate-Transfer arrangement
- bond floatation
- borrowings from commercial banks using either DBP or LBP financing facilities or purely commercial bank resources

- guarantee corporation
- corporate foundations

### *Private-Public Partnerships (The BOT Law)*

Republic Act 7718, otherwise known as the BOT Law, defines the parameters for private sector participation in infrastructure development. The Law was passed in 1996 to address the limited resources of government to invest in infrastructure development, to encourage greater efficiency in the use of resources and management and operation of infrastructure facilities, and to improve the delivery of public services. Data available from the BOT Center indicates that most of the public-private partnership projects it assisted are income-generating. Of the 71 completed/ operational or awarded public-private partnership programs, five are water-related. These are MWSS Privatization, Subic Water and Sewerage, Clark Water and Sewerage, Casecnan Multi-Purpose Project of the National Irrigation Authority (NIA) and the Bohol Water Supply System.

The same is true for bond floatation projects. From the initial list of municipal bonds that have been floated, there is nothing on water supply provision or EI related. Bond floatation as a financing strategy is geared more towards income generating projects.

### *The LGU Guaranty Corporation (LGUGC)*

In 1997, the LGU Guarantee Corporation was set up to make available the financial resources of the private sector to LGUs for their infrastructure development projects. As LGUs are seen as “high-risk” by creditors, LGUGC guarantee will provide the value-added cover that permits creditworthy LGUs to access the commercial credit market. EI projects that are eligible for LGUGC guarantee mostly focus on water supply, sewage and sanitation projects. Priorities are 1<sup>st</sup> class cities and municipalities which are considered to have good creditworthy standing. Maximum guarantee is P50M regardless of the type of project. Repayment period for LGUGC guaranteed project is usually seven years. Collateral requirements include project cash flow, project assets, assignment of IRA, real estate properties and chattel. So far, the LGUGC has not yet made any guarantee for EI projects, except for one pending application on waste management project.

### *Corporate Foundations*

Increasingly, corporate foundations have included environmental management initiatives in their priority programs. However, EI programs have been limited in scope. The Philippine Business for Social Progress (PBSP), an organization that is supported by various corporate foundations, undertakes programs on the environment focusing on solid waste management and agri-waste management.

In particular, assistance covers the installation of a Materials Recovery Facility (MRF) and other processing equipment for waste. In the past, PBSP sought to pursue agri-waste to energy (biogas) projects but the infrastructure requirement was too expensive for PBSP and its partners to finance that it was not pursued. The League of Corporate Foundations supports EI programs on water supply and sanitation and MRF. One of its members, Mirant Foundation, allocates PHP20M for EI programs in its five-year development plan. The Foundation provides only in-kind support, such as materials, physical engineering, among others. Eligible EI projects include water supply provision (level 3), septic tanks/septage management, and sanitary disposal facilities (MRF).

### *Commercial Banks*

For participating financial institutions (PFI), interviews with one commercial bank (RCBC) indicate the absence of a specific credit facility for EI. Past loans with EI were sub-components of bigger loans for project financing, and usually included to comply with government laws and requirements. However, request for a loan on EI may be accommodated but this will be assessed on a case to case basis. Bank financing priorities are for facilities or infrastructures that would generate income, thus increasing the likelihood of successful repayment. The bank is also particular with the environmental compliance of borrowers to minimize the risk of the industry/company closing down for violations of environmental laws. Most loan applicants with EI sub-components are medium to large-scale industries, majority of which are food processing industries. The EI component is for waste water treatment facilities.

The bank has likewise participated in municipal bonds floatation. However, LGU bonds (usually for cities and first class municipalities) that the bank covered have focused on revenue generating activities such as public markets, slaughterhouses and bus terminals.

Financing terms are the same as in commercial loans. Loan repayment is usually three years, with a two year grace period. For LGU bonds, repayment is for eight years, with 2 years grace period. The value of loans depends on RCBCs credit risk assessment of the borrower, and the feasibility of the project proposal. For LGU bonds, the continuity of political support for the proposed project is a prime consideration.

Based on the interview with a Bank officer, there seem to be a prevailing view in the bank that investments on EIs are additional costs to companies and have no direct bearing on their revenue generating capacity or performance. Investments on EI is seen as compliance to existing laws and as part of the industry's corporate social responsibility.

Best Practice: The Asian Conservation Company, Inc.

The Asian Conservation Company, Inc. (ACC) is an investment holding company incorporated in December 2001 that aims to build a bridge between private sector investment and biodiversity conservation. The goal of ACC is to construct a network of private sector investments that proactively conserve biodiversity while remaining profitable and competitive in the market place. ACC will strategically invest in companies that operate in high priority biodiversity areas, mitigate against their own environmental impacts, and have potential to go well beyond mitigation to actively conserve globally significant biological diversity. ACC aims to, among others, provide environmental support activities and related managerial and technical assistance to companies with respect to compliance with environmental standards and ecological sustainability that contributes to the objectives of the Convention on Biological Diversity. Among its targeted investments and investment areas is coastal waste management with recycling component. ACC recognizes the tremendous potential and need for coastal waste management projects located in areas of high priority diversity conservation. Initial discussions have targeted a single island to create a landfill that would be designed in an environmentally sound manner and have a recycling and composting component. This is expected to reduce ocean dumping that is currently taking place.



#### **4. Profile of EI Project Development Facilities**

In accessing any form of EI financing, project proponents need to prepare a project proposal plus accompanying documentation requirements prescribed by the funding agency. The documentation requirements are found to be more stringent if seeking private sector financing. Initial feedback from EI loan portfolio managers point to weak EI proposals as the main reason for low/slow approval rate/process for EI applications, whether private or public proponents. This is particularly true for SMEs and LGUs which may not have enough in-house capacity and resources to undertake feasibility studies. Bank requirements for the ECC, EIS or EIA as part of the documentary requirements for loan application likewise pose a major constraint to many SMEs and LGUs in seeking private sector financing for EI projects.

Recognizing these barriers to EI financing, various technical assistance programs and facilities for project development have been set up. Technical assistance covers the whole range of project cycle: from project development/FS preparation, loan negotiation, pre-implementation, up to project implementation.

Among the existing Project Development facilities are the following:

##### **Development Banks**

While DBP and LBP EI financing facilities do not formally include the provision of TA on project preparation, their account officers and environmental staff who interface with prospective proponents are trained on basic environmental management and somehow extend some form of advisory services to clients in the process. In an effort to assist the small borrowers meet the documentation requirements, there are instances when the FS/project preparation cost is integrated in the loan package for approved applications.

For the LBP, their field account officers provide advisory services to prospective borrowers thus facilitating loan processing at the central level. One LGU facility of the LBP, the LGU-SCP, includes a project preparation component to the loan facility that LGUs can avail of.

In the case of the DBP, it was gathered that minimal project preparation intervention is provided to the borrowers. Technical assistance is possible, however, it can commence upon loan approval.

##### **Government Facilities**

Most PD facilities are targeted for LGUs and are generally biased towards infrastructure-related projects.

##### ***MDFO - LOGOFIND***

The Municipal Development Fund Office, through the LOGOFIND, offers an integrated package of grant assistance to LGU project proponents in all stages of

the project cycle, i.e. from proposal preparation to project execution to project implementation. The project forms a sub-project appraisal team with various areas of expertise, i.e. infrastructure, engineering, social development, environment, governance, financial, etc. Once an LGU project is qualified, the sub-project appraisal team is deployed on site to assess the feasibility of the project. The sub-project appraisal team prepares the report and defends the project to the policy governing board of MDFO which approves or rejects the project.

The project provides prototype project designs for use of LGUs to reduce cost of sub-project preparation; provides loans for project preparation/feasibility study; provides training and capacity building program free of charge; and provides technical assistance to improve LGU fiscal performance free of charge. The latter is deemed an important capacity area if LGUs are to recover their investment and sustain the operation and gains of the project.

The project can also implement training programs commonly identified and requested by a group of LGUs, especially if these are essential to the effective implementation of sub-projects.

#### *BOT Center-Project Development Facility*

The fund is designed to assist Implementing Agencies (IAs) and LGUs for project pre-investment activities. The PDF requires that repayment of the pre-investment cost be borne by the winning bidders as a precondition for contract awarding. The rationale for the extension by the PDF of loans rather than grants is to promote the sustainability of the fund, and to ensure greater commitment on the part of the IAs/LGUs to successfully tender the project.

The PDF supports the following services: assessment of technical feasibility; assessment of financial and economic viability; initial environmental impact assessment; preparation of tender documents and draft agreement; provision of technical assistance in the tendering process, bid evaluation, negotiation and award including start-up assistance after contract award.

To date, PDF funds are sourced from the USAID and the ADB. The USAID component, worth US\$1M, can be availed of by national implementing agencies, government-owned and controlled corporations, and local government units. It is tied to American and local consulting firms. The ADB component, worth US\$3M, also known as the Local Government Unit Private Infrastructure Project Development Facility (LGUPIPDP) is being administered by the LBP. This facility is open exclusively to LGUs.

#### *NEDA Project Development Management Fund*

In 1999, the NEDA Management Committee approved the establishment of the Project Development and Monitoring Fund (PDMF) for the purpose of project identification, feasibility studies, master planning at local and regional levels, and monitoring and evaluation. The fund is administered by NEDA, with its regional offices playing an active role in implementation.

The PDMF is comprised of grant assistance by ODA funding agencies intended for the purposes indicated in the ODA Law. PDMF resources are distinguished from other ODA resources, which are also grant assistance in nature and used for purposes similar to those of PDMF, but are the subject of separate agreements with ODA funding agencies, or not administered by NEDA. The target amount of ODA funds mentioned in RA 8182, or the ODA Law, which is 5% of the total ODA loan of any immediately preceding year, shall not be taken to refer exclusively to PDMF, but rather to the totality of ODA grant resources for the purpose of project identification, feasibility studies, master planning at local and regional levels, and monitoring and evaluation, inclusive of PDMF. NEDA shall endeavor to obtain and replenish PDMF during regular consultations with ODA funding agencies.

The target beneficiaries of PDMF are fourth to sixth class LGUs, or clusters thereof, based on the most recent DOF classification. Special cases are subject to approval by the Deputy Director General for Regional Development. In the case of ARMM, the target beneficiaries shall be defined in a MOA between NEDA and RPDO-ARMM.

The activities eligible for PDMF assistance are the following:

- Project identification in the form of master planning at local and regional levels;
- Project preparation in the form of feasibility studies and pre-feasibility studies;
- Project monitoring in the form of results monitoring on ongoing projects and impact studies of completed projects;
- Training, capability-building and human resources development activities on project identification, preparation, and monitoring may be eligible only with prior approval of the DDG-RDO. Otherwise, for these activities other available funding facilities shall be explored.

Proposals for PDMF assistance may originate from any source, e.g., LGUs, members of Congress, the private sector, NGOs, or the NEDA Regional Offices (NRO) themselves. However, all activities should be endorsed by an eligible LGU and/or the RDC. Final approval for implementation rests with the concerned NRO.

Eligible projects are based on the list of priority sectors and type of projects determined by NEDA. Projects under the PDMF may be local, regional, inter-regional or national in nature. As such, the executing agencies for projects to be assisted under PDMF, if and when they are implemented, need not necessarily be the beneficiary LGUs but may also be regional/national government agencies. NROs are responsible for the approval of the LGU scope of work and the implementation arrangements and monitoring of the progress of activities to ensure that the objectives of the PDMF assistance are met.

So far, LGU appreciation and availment of the PDMP has been rather low. LGUs tend to avail of the facility if they have specific projects in mind that they are committed to implement and seek financing for.

### *Department of the Interior and Local Government*

The DILG is the coordinating agency for all water and sanitation projects targeted for LGUs. It acts as the lead implementing agency for some water supply projects, or co-implementor handling the technical assistance component of Water and Sanitation (WATSAN) projects for LGUs. In some ways, the technical assistance of the DILG-WATSAN unit is not an open facility but is targeted for the coverage areas of the various foreign-assisted projects. As with other government-sponsored PDF, the WATSAN project areas mostly cater to the lower income LGUs.

Among the common areas for technical assistance are the following:

- strengthening the capability of LGUs in planning, implementing and managing WATSAN Projects,
- preparation of feasibility studies and detailed design for WATSAN projects
- promoting sustainability through community participation especially in the organization/reactivation of BWSAs or people's organization, and operation and maintenance of the water supply system projects

Past and present WATSAN projects of the Department are as follows:

- Rural Water Supply and Sanitation Sector Project (RW3SP), a US\$57.4M loan with funding assistance from ADB, implemented from 1998 to 2002. The project provided Level 1 water supply covering 21 LGUs in poor provinces nationwide.
- Rural Water Supply and Sanitation Sector Project Phase V and VI (RW2SP). Phase V had a total project cost of P 696 M (loan), with funding assistance from JBIC. Implemented from 2000 to 2004, the project provided Level 1 service in six provinces. Phase VI, costing P1,465 B funded through a loan from Overseas Economic Cooperation Fund, has been implemented from 2001 to 2005. It provided Level 1 service in 20 provinces.
- Local Government-Urban Water Supply and Sanitation Project (LGUWSP). This is a project financed by the IBRD/World Bank under the Adaptable Program Loan (APL) instrument at an estimated loan amount of \$ 190 million covering approximately 250 municipalities nationwide.
- DILG-GTZ Water Program towards an Integrated Water Resources Management. This Project is a technical assistance to the Government of the Philippines. The program objective is to develop and implement strategies for sustainable water supply and sanitation as well as for the protection and management of water catchment areas. The program, implemented from 1998 to 2006, provides Levels I & II service in 7 municipalities in four provinces.
- Water Supply and Sanitation Development for Special Zone for Peace and Development (WSSD SZOPAD). The project is designed to respond to water supply needs of the rural areas under the SZOPAD. The project was funded through a grant of \$291 M from JICA. Implemented from 2000 to 2003, the project provided Level 1 service targeting all 5th and 6th class municipalities in the provinces of Davao del Sur, Cotabato, Lanao del Norte, Lanao del Sur, Sultan Kudarat, North Cotabato, Zamboanga del Sur, Zamboanga del Norte and Maguindanao.

## Foreign-assisted Initiatives

From the EI projects reviewed, donor institutions do not directly provide project development assistance to project proponents. They provide funds to set up project development facilities or financing facilities that have TA component, such as in the case of the USAID and ADB for BOT PDF and WB for LOGOFIND. The more common form is by integrating PD assistance as a component of the environment projects they finance, such as in the case of USAID's EcoGov Project and the various foreign-assisted WATSAN projects of DILG.

The EcoGov Project of USAID includes the provision of full-blown technical assistance and capacity building to its target 100 LGUs plus the six LINAW LGUs in mobilizing external resources for EI related projects. The project assistance ranges from project preparation to accessing the loans to operating the project. The LINAW project provides the following technical assistance: targeted TA, including project design and packaging support; site visits to best practice areas; participatory planning workshops; information and resource materials development on technology and financing options; public awareness campaign; and knowledge sharing of project results.

USAID experience in the two projects shows that project preparation to ground breaking takes about 2 to 7 years. Under the LINAW project, "best performer" is Dumaguete City which took only two years from project preparation to loan negotiation. San Fernando, La Union took seven years from project preparation to ground breaking, despite the presence of a dynamic and development-oriented Mayor who served three consecutive terms. In the EcoGov I project which lasted for four years, none of the LGUs it has assisted is ready to sign a loan.

Another agency that provides PD assistance on EI is the Canadian International Development Agency. Through its Philippines Governance Fund, CIDA supports the preparation of FS and pre-investment studies on water supply and wastewater treatment. The fund is open to SMEs and LGUs.

As can be observed, most of the existing PDFs and environmental programs with PD-TA component of donor institutions cater mostly to lower income LGUs. There is hardly any PDF assistance catering to SMEs.

## Private Sector PD Facilities

### *LGUGC*

The LGUGC offers project preparation and financial advisory services to LGUs in the following areas: FS preparation, financial analysis, preparation of financial plans, design of debt features and structure, negotiation with various government and private institutions for the approval of the loan/bond floatation; organization of lending/underwriting team, and other financial advisory and consultancy services relative to the loan/bond floatation. It has in-house experts on project development and internal credit rating assessment for LGUs. Project development ranges from six months to one year.

### *The Philippine Center for Water and Sanitation (PCWS)*

The Philippine Center for Water and Sanitation is a local foundation affiliated with the International Training Network Foundation. In 2005 it forged a partnership with the Bremen Overseas Research and Development Association (BORDA) for the promotion of decentralized wastewater treatment systems (DEWATS). The partnership focuses on the development and dissemination of environment friendly and appropriate technologies, which enhance the communities' self-help potential, strengthen women's participation and protect natural resources. It aims to improve the health and the environment of low-income urban communities through the provision of sanitation and wastewater treatment.

BORDA and PCWS work hand-in-hand to promote and implement demand-oriented decentralized wastewater and sanitation services in highly populated regions in the Philippines. Services are provided to communities, small and medium enterprises, and local governments in conducting participatory community education and decision-making; feasibility studies; planning and designing, as well as construction and supervision of effective and cost-efficient appropriate decentralized wastewater treatment systems (DEWATS).

DEWATS involves treating both domestic and industrial wastewater using: (1) primary treatment and sedimentation; (2) secondary anaerobic treatment in fixed-bed reactors or baffled upstream reactors; (3) tertiary aerobic/anaerobic treatment in subsurface flow filters; and (4) tertiary aerobic/anaerobic treatment in ponds. Under DEWATS, the treated wastewater meets the effluent discharge standard stipulated in environmental laws and regulation.

### *Mirant Foundation*

The Foundation provides technical assistance to LGUs, mainly located around their powerplants in Pagbilao, Quezon and Sual, Pangasinan, in the preparation of project proposal including pre-work/construction preparation, FS preparation, engineering/ technical inputs, as well accessing funds from ER 1-94 to finance their EI projects. The Foundation has in-house experts for all types of engineering applications, and taps external experts for social and financial aspects. Project preparation takes about six months for water supply projects. Its priority EI projects include: potable drinking water supply, sanitation (septic tanks) and sanitary livelihood facility (MRF). Current focus for assistance is on development of livelihood and other income generating projects for the priority LGUs and communities.

## 5. Barriers/constraints to accessing EI financing facilities

In defining the existing barriers to investments in EI, the study looked at both the demand and supply side for environmental infrastructure. On the demand side, two clusters of EI end-users or proponents were identified as priority targets: the SMEs and the LGUs. The following surfaced as the key constraints in pursuing EI investments and accessing appropriate financing for such:

### For SMEs

- ***Limited awareness and understanding of the triple bottomline benefits of investments in EI.*** Most companies show little or no interest in environmental projects because they are perceived as being unprofitable and do not result in savings for the company anyway. Businesses have limited understanding of the benefits of pursuing cleaner production initiatives, how investments in such can help reduce operational costs and generate subsequent savings on raw materials and energy, among others. The common perception that EI investments only add to costs and do not yield significant results in the company's bottomline still prevail among SMEs.
- ***Lack of technical knowledge on wastewater management.*** Most end-users lack information on how to construct, improve, optimize or upgrade their facilities. Although there are companies that have in-house consultants or pollution control officers, most still depend on outside consultants to assess their requirement, design the wastewater treatment plant and suggest the equipment that need to be installed. Due to their lack of knowledge about cleaner production technologies, many wastewater treatment facilities are not effective in treating water and the end-users get to realize this after their effluent fails to pass government standards.
- ***Lack of funds to implement wastewater treatment projects as well as lack of skilled personnel.*** While inadequate resources is a major constraint to investing in EI for many SMEs, having adequate funding does not however guarantee the successes of a project. There are large-scale modern water supply facilities that have not been used because of lack of skilled personnel to operate and maintain them.
- ***The high investment and operating cost of EI facilities.*** Price is a major consideration in purchasing wastewater treatment equipment. Other considerations are operating cost, maintenance cost, ability of the equipment or facility to treat the water so that the effluent will comply with government standards.
- ***Weak FS preparation capacity and creditworthy status.*** There seem to be some level of awareness and interest among SMEs to install environmental technologies as shown by the large number of proposals received for the SME-dedicated facilities of LBP and DBP, they have ***limited skills in FS preparation and low creditworthy rating.*** In contrast, big corporations that are more financially stable, e.g. the two MWSS concessionaires - Maynilad

Water Services, Inc and Manila Water, do not seem to have much difficulty accessing available financing facilities. These companies have very strong project development and financing capacities and enjoy good creditworthy status.

#### For LGUs

- Except for water supply systems which is a “political commodity” for local chief executives, *El projects rank low in local development priorities*. As revealed in the previous discussions, LGUs stake in water management goes beyond the provision of potable water supply. Rather, it shares with DENR the responsibility for the management and improvement of water quality within their territorial jurisdictions. The Clean Air Act provides that LGUs access private sector participation for the construction, rehabilitation and/or operation of sewerage and sewage treatment or septage facilities, or raise funds to subsidize necessary expenses for the operation and maintenance of sewerage and sewage treatment or septage facility servicing their area of jurisdiction. From the list of EI projects that have accessed EI financing, EI for septage and sewerage is very limited. Most of the projects are still on WATSAN, which is an equally important service that must be provided by LGUs. While LGUs accord high priority on WATSAN projects, there is *some resistance in terms of setting water tariffs*. As mentioned, LCEs look at water supply as more of a service than an income-generating project that should at least reach break-even level of operations. Setting water tariffs based on full costing is not looked upon favorably by their constituents and may even cost the politicians their political careers as what happened to one development-oriented LCE who despite his impressive performance lost in his re-election bid due a decision to privatize water supply provision and increase water tariff.
- A common feature of many WATSAN projects is *engaging community participation in project planning and management*. In fact, one of the bank requirements is a certification from the target beneficiaries to accept the water tariff rates and the responsibility for eventually operating and managing the facility. Given the dole-out mentality/attitude of some communities, getting their acceptance, especially for water tariff, is quite a challenge and might cause delays in the completion of loan requirements.
- LGUs in general have *difficulty meeting the documentary requirements of banks*, such as collateral, Sanggunian resolution, etc.
- *General aversion of LGUs to borrowing*. Many LGUs are reluctant to commit their IRA as collateral for loan borrowings that may include EI projects, as this would limit the flexibility of the Local Chief Executive in pursuing his priority projects during his term. Considering that EI projects have long maturity period, borrowing for this type of projects may also constrain the future administration's flexibility in investment programming.



- ***Political factors*** also present a major obstacle to EI financing. One of the requirements is an SB resolution authorizing the LCE to push through with the project. In situations where the LCE and the SB are not working harmoniously, the LGU may be severely constrained from pursuing any EI financing initiative.
- ***LGUs find the interest rates on bank borrowings to be quite high.*** While DBP and LBP offers to LGUs are lower than market rates, they are still considered high vis-à-vis financial capacity particularly of 4<sup>th</sup> to 6<sup>th</sup> class LGUs.

**The Case of the Southern Mindanao Improvement Waste Treatment Project**

The project was to be the first public water treatment facility in the country. Located in General Santos City, the project is a direct loan (soft loan) from JBIC amounting to P 500 Million. The project did not continue as planned because of the problem with LGU (counterpart of LGU in allocation of land where the waste facility will be constructed). Mentioned as one major problem that stopped the implementation of the project was the difficulty in coming up with a board resolution as regards to the allocation of land for the facility. Instead, septic/sludge facility connecting the seven municipalities surrounding Saranggani Area was constructed.

- The ***limited capacity of LGUs to put up the counterpart funds*** not only for EI projects but for other sector projects is also a key concern. In addition, non-compliance with LGU commitments, changes in LGU priorities, and in rare cases, ***changes in LGU leadership*** have affected access to EI funds. There have been cited instances when LGUs had to withdraw approved loan applications for such reasons, or new administrations would not honor the liabilities of the previous administration even for legitimate projects.
- The ***short tenure of elected officials***, thus their bias for high-impact projects. The project development process for EI initiatives usually takes long, estimated to be anywhere from 6 months to one year, such that by the time the project is operating, it is already election time.
- ***Low awareness and appreciation of EI and its benefits.*** The low importance given to EI improvement can be gleaned from the performance of foreign-assisted PDFs such as the Solid Waste Ecological Enhancement Program of WB which had to close reportedly because there were no LGUs willing to avail of the program services. In the same light, ADB's LGU Private Infrastructure Project Development Facility is said to be at risk of being cancelled as it seems unattractive to LGUs because of the growing pessimism of LGUs to private investment. Out of the original 10 subprojects, only two pushed through showing a low LGU demand for the fund.

**For both SMEs and LGUs**

- A number of legal and institutional frameworks for environmental protection and natural resources conservation have been formulated and enacted into law or regulations, however their ***enforcement is perceived to be weak and inconsistent.*** . Banks are strong in their view that effective enforcement of

existing regulations, both at the national and local level, will certainly stimulate the demand for EI.

- ***Quality of proposals submitted is weak, particularly in financial analysis.*** Both SMEs and the LGUs have limited capacity and resources to complete the technical and documentary requirements of banks, such as feasibility studies and environmental impact statement/studies that are rather costly by their standards.

#### *Domestic Households as Final End-Users*

For large companies such as the MWSS concessionaires, project preparation and financing capacities seem adequate. A major concern is the low willingness of domestic households to connect to sewerage systems. The Manila Water Company, Inc., a concessionaire of the MWSS for east zone, is reported to be having difficulty attracting customers to connect. This requires continuous advocacy and education among households on the importance of connecting to sewerage systems.

#### **The Case of Wastewater Treatment System in Boracay Island, Aklan**

The Philippine Tourism Authority, which has the overall mandate for the protection, development and management of Boracay Island, is reported to have installed sewage facility in the island. However, tourism establishments have been unwilling to connect to the system as doing so will mean additional costs to them. Meanwhile, this has affected the quality of the waters in Boracay. There have been times when coliform level is high. Enforcement of environmental regulations is clearly a major concern, which if not properly addressed, can inflict more long-term damage to the tourism industry in the area, especially considering that Boracay is one of the country's top tourism destinations. .

#### *EI Financing and Project Development Institutions*

The extent by which EI financing programs are accessed can also be looked at from the perspective of the implementing institutions or the supply side. Among the common concerns are as follows:

- In general, program funds for LGU have ***poor availment and utilization performance***. On the other hand, total EI funds for private companies seem insufficient relative to demand. However, actual availment would indicate that EI funds are not able to reach SMEs, with most of the borrowers consisting of big corporations.
- ***Too many and cumbersome documentary requirements for loan applications*** which are found difficult to comply with particularly by SMEs. This inevitably results in the facility appearing as biased towards big companies that are more established and with ready documentation of required information.
- ***Long processing of loan applications.*** The DBP-IPCLP I ex-post evaluation rated the project low in terms of loan processing, averaging two to six months upon submission of complete documentation. For the EcoGov I Project of USAID, none of the 79 LGUs it assisted in preparing FS is ready to sign a loan.

The project was completed in 2003 and now has a Phase 2. The City of San Fernando, La Union led by a dynamic three term mayor, took seven years from project preparation to actual ground breaking of its sanitary landfill project. National government (NG) grants and relending to LGUs, supported by ODA loans, through the MDFO require budget cover in the current budgeting system. Because of the fiscal deficit, even relending to LGUs can be constrained by the NG budget.

- ***Stringent financing terms that are beyond the capacity of the target borrowers.*** The interest rates for EI financing seem slightly lower than market rates, making them less attractive to LGUs and SMEs. It was gathered that for LBP, negotiated interest rates have been practiced in one program for SMEs. As a result, availment of the said credit facility has been very impressive, reaching almost 100%. Moreover, the hand-holding assistance provided by the regional account offices of LBP to the prospective borrowers has facilitated the approval and immediate processing of loan applications.

Considering that soft loans secured from ODA sources command interest rates ranging from one to two percent, the 11%-15% interest rate is still high. Decompressing the current interest rates charged to EI investments indicate the following: a) .75% to 1% goes to the funding source (like JBIC and ABDB); b) five percent as buffer rate (a mandatory requirement for inflation and currency adjustments); c) three percent as spread added by wholesale banks for transaction and administrative cost; d) three percent add on by retailers such as commercial and retail banks, or the participating financial institutions.

- Environmental management projects are peculiar. Very often, they ***involve inter-agency networking and much hand-holding of the proponent***. This is particularly cited by the DBP marketing unit. Processing these projects is often long-drawn, resulting in the build up of the pipeline but allowing only a slow portfolio growth.
- ***Poor coordination with other co-implementors.*** This is particularly true for WATSAN projects that follow a multi-agency implementation scheme, i.e. the DILG to implement the community organizing and capacity building component, while the banks take care of the financing part.
- There also seem to be ***some competition between/among EI program portfolios***. This is illustrated in the case of DBP EISCP which was made available for LGUs for water and solid waste management projects, but was not able to attract LGU applications as there are other financing facilities within the bank that offer better financing terms.
- ***Perceived corruption among enforcers*** of environmental laws deter the private sector from investing and/or partnering with LGUs for EI projects

## 6. Conclusion and Recommendations

Current EI financing programs on water are targeted mainly for SMEs, and to a large extent, LGUs. For both target groups, access has been rather limited due to a host of factors that include the following: low environmental awareness and consciousness, lack of knowledge on EI technologies and their potential triple bottom line benefits, weak capacity to prepare proposals and meet documentary requirements, the instability and poor creditworthy standing of many SMEs and LGUs, inconsistent and ineffective enforcement of environmental laws and regulations, among others. The present EI financing facilities and products designed for SMEs and LGUs are not found to differ significantly from other existing commercial loan packages. Financing terms are perceived as beyond the financial capacity of SMEs. Although most loan facilities offer variable interest rates and short repayment periods, particularly for LGUs, loan requirements are found to be too many and difficult to comply with, while efficiency in loan processing is quite low.

Quite obviously, the capacity to prepare good proposals is a major constraint to SMEs and LGUs in accessing available EI financing resources. Project development facilities are mostly sponsored by government and targeted mainly for LGUs. Not one of these facilities though caters to SMEs. Despite the seeming huge demand for project development assistance, the performance of project development facilities has not been too impressive. Cases of PDFs for LGU closing down or at risk of being cancelled have been noted mainly on account of low volume of takers. The long-drawn process of project development which can take anywhere from six months to one year could be a key factor. LGU participation in PD is seen as an investment activity for LGUs, with their most capable staff getting involved in the process on top of the other counterpart resources they are required to put up. Ultimately, it is the LGUs' low appreciation and regard for the environment and of their role in environmental protection that makes them shy away from available EI financing and PD facilities.

To improve the access to and performance of EI financing and PD facilities, the following strategies are suggested:

### *On enforcement of environmental laws*

- Both the literature review and individual interviews point to the need for stronger enforcement of environmental laws, particularly relating to water supply and water quality management, both at the national and local levels. Strict and consistent enforcement of environmental laws and legislations should be applied not only for SMEs but for LGUs as well. The mandates of LGUs for water quality management have been clearly spelled out in the Clean Water Act. They, too, should be closely monitored in terms of how well they are keeping to their mandated functions. Corollarily, a concerted Information/ Education/ Communication (IEC) campaign on the Philippine Clean Water Act may be necessary to inform concerned agencies and stakeholders of their roles and responsibilities, as well as the sanctions they will face in case of non-compliance.

### *On awareness raising and capacity building for EI*

- Conduct continuous training on environmental management, PD for environment related projects and technical courses on EI water for LGUs and SMEs. For the LGUs, capacity building programs should not only focus on the executive but also include the members of the local legislative councils or the Sanggunian. Technical training or orientation on cleaner production and EI technologies will help raise the level of knowledge, and interest, of SMEs and LGUs on EI.
- Conduct continuous orientation and capacity building on EI technologies and approaches such as green productivity, cleaner production/technologies, etc. highlighting the triple bottom line benefits of EI investments. There is need to correct the general impression that EI is more of an added cost to the proponent, losing sight of the many financial, economic and ecological benefits it produces not only for the organization but for the larger community.
- Conduct continuous social marketing campaigns in partnership with EI technology suppliers, using more innovative ways of reaching out to SMEs and the LGUs.
- There is a need for a multisectoral initiative to educate the population on the importance and benefits of having sewerage treatment and encourage households to connect to existing sewage treatment facilities.
- Develop a database portal on EI that includes a list of proven EI technologies, suppliers, consultants/experts, among others. The EI database should be easily accessible to SMEs and LGUs. The database can provide a useful guide to SMEs and LGUs when they embark on an EI project. If not yet available, a user-friendly EI specific PD toolkit can be developed as part of the capacity building and social marketing initiatives for EI. While PD materials on EI are available, these are mostly on WATSAN.

### *On the design of EI financing and project development facilities*

- The success of DBP's IPCLP offers some lessons that could be adopted to enhance current and future EI financing programs for SMEs. Among the program's key features are: focused targeting and provision of free technical assistance to loan borrowers/project proponents during implementation and operation of the EI project. In view of the limited resources available, current EI facilities can be made to focus on highly pollutive industries, combined with a grant component that lending institutions may seek from donor agencies or from existing PD facilities. This will help reduce efforts of SMEs to seek different facilities for the single purpose of getting EI financing. This is already being done with other development projects, such as in the case of agrarian reform communities financing programs which combine with a technical assistance component that is implemented by a partner agency. One such example is the Rural Agricultural Support Credit Program where rural credit and

agribusiness advisors were deployed in each provincial project site of another agrarian reform project to assist cooperatives in accessing LB financing facilities.

- Study the possibility of offering more liberal/affordable loan packages to LGUs and SMEs. The current interest rates, while relatively lower than prevailing market rates, are still high given the fiscal capacity of many low income class LGUs.

*On development and promotion of low-cost EI technologies and other cost-sharing approaches*

- As the price of EI technologies is a prime consideration, it might help to develop, pilot and/or commercialize low cost but effective EI technologies. The LINAW project of USAID is a good case in point. Perhaps the DOST, or technical-vocational institutions in the country, can embark on an R&D for EI technologies that are more applicable to Philippine situation.
- Study the possibility of setting up common wastewater treatment facilities, or sharing of a company's facility with other neighboring establishments for a fee, among SME establishments within industrial parks, resort areas, and other similar clusters. This will help reduce cost and give incentives to companies that could share their EI facilities, e.g. wastewater treatment, with neighboring SMEs.

*On enhancing operational efficiency of EI financing institutions*

- Improve the efficiency of banks in loan processing
- Streamline coordination processes with other government agencies. This is particularly true for projects that have several co-implementors, such as the water projects that are co-implemented by the DILG. Unless deliberate synchronization of activities and resources are pursued, it will be difficult for the project to move according to plan.
- For BSP to come up with a standard policy requiring banks to compel their clients to comply with environmental guidelines.
- Initiate discussion of the issues/findings of the study among members of the financial/banking community and generate their views and insights on how to overcome the existing barriers to EI investments and financing.

*On the setting up of future EI financing and project development facility*

- For PEMSEA and DENR to convene a technical working group with members mostly coming from the GFIs, and other identified stakeholders for EI to discuss whether there is a need for a revolving fund for EI given the existing situation, and to flesh out the details of the revolving fund if this is found necessary.
- Pilot testing of the EI financing mechanism that may evolved from the group's recommendations.

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Annex A  
Development Bank of the Philippines

	Environmental Infrastructure Support Credit Program (EISCP)	Industrial Pollution Control Loan Project (IPCLP)	LGU Urban and Water Sanitation Project (LGU-UWSP)
Project description	<p>A credit and technical assistance program funded by the JBIC. The Aims to support investment projects that contribute to the improvement of the quality of the environment through reduction or prevention of pollution. It is available in pesos for lending to investment enterprises in industry, mining and service sectors. The facility is available up to March 2006 and is offered nationwide.</p> <p>Direct lending facility, now in Phase II running from 2000 to 2006</p> <p>Phase I - 1996 to 2002</p>	<p>IPCLP I is a DM 9.2 million credit facility funded by the Kreditanstalt für Wiederaufbau (KfW) of Germany intended to finance environmental investments of SMEs.</p> <p>Phase 1 - 1997-2001 Phase II - 2002 to present</p>	<p>Financed by the IBRD/World Bank (2001-2006) or Nordic Development Fund (1998-2005), the project assists LGU and privately managed water utilities to operate on commercial principles in order to provide consumers in about 364 LGUs with safe, reliable, sustainable water and sanitation services.</p>
	Three of four water-related EI financing facilities are targeted for SMEs; 1 for LGUs		
Eligible EI projects	<ul style="list-style-type: none"> <li>Cleaner production, waste minimization, pollution prevention</li> <li>Waste recycling, waste treatment or disposal system</li> <li>Occupational health and safety improvements</li> <li>Wastewater treatment facilities</li> <li>Air pollution control equipment</li> <li>Environmental monitoring instruments and equipment</li> </ul>	<p><b>IPCLP II focuses its lending program on SMEs and its Priority Sectors include the following:</b> Metal working; Food production; Leather tanning; Fabricated metal; Veneer plywood; Meat; fish, fruit and vegetable processing; Chocolate, cocoa and confectionery; Furniture; Carageenan and seaweed; Shrimp and prawns; Piggery; and Slaughter houses</p> <p>Financed investments on the following: Pollution reduction including improvement in occupational health and safety and/or reduction of raw material inputs to cover waste minimization/clean technology</p> <p>Installation of cost effective end-of-pipe treatment facilities and other waste disposal options</p> <p>Investments in equipment to monitor emissions or effluents</p>	<ul style="list-style-type: none"> <li>Construction/improvement/rehabilitation of Level III water facilities</li> <li>Provision/improvement of sanitation facilities</li> <li>Construction/improvement of urban drainage</li> <li>Financing of civil works, equipment and supervision</li> <li>Financing of sanitation program</li> <li>Financing of investments in an urban drainage program</li> <li>Creation of water utilities private sector participation facility</li> </ul>

	Environmental Infrastructure Support Credit Program (EISCP)	Industrial Pollution Control Loan Project (IPCLP)	LGU Urban and Water Sanitation Project (LGU-UWSP)
	Assessment: largely for cleaner production technologies, treatment facilities, etc.		
Targets/Eligible sub-borrowers	<ul style="list-style-type: none"> <li>Filipino citizens or corporations with at least 70% Filipino capital</li> <li>Government Owned and Controlled Corporations</li> <li>Local Government Units for solid waste management / water supply</li> <li><i>Although this facility is open for LGUs for solidwaste and water supply infra, EISCP has no LGU borrowers since separate credit facilities are available that specifically caters to solidwaste and watsan (Credit Line for Solidwaste Management and LGU-UWSP)</i></li> </ul>	Existing SMEs with minimum one year of operation prior to the approval of the loan and new companies with concerned investments that comprise of common treatment plants or environmental laboratories.	<p>Requires the following: The program promotes full cost recovery, that is, the tariff to be paid by the consumers should cover the cost of operation and maintenance and the repayment of the LGU DBP Loan, and to the extent possible, the reimbursement of LGU equity. The system shall be operated by a private operation under a long-term lease contract with the LGU.</p>
	Assessment: mostly SMEs		
Project location	Nationwide	Nationwide	<p>Poor communities in the 73 cities and 103 first class municipalities outside Metro Manila are eligible to participate in the Project</p> <p>LUZON - Isabela: Aurora, Cabatuan. Luna, Mallig, Quezon, San Mateo Kalinga-Apayao: Tabuk , Laguna: Magdalena , Palawan: Batarasa; Magsaysay, Cuyo , Quezon: Padre Burgos, Buenavista MINDANAO - Bukidnon: Cabanglasan, Lantapan, Kalilangan, Manolo Fortich , Misamis Oriental: Talisayan, Initao Lanao del Norte: Iligan City</p>
Total program funds	EISCP I - JPY 5,000 Million	<ul style="list-style-type: none"> <li>IPCLP I - DM 9.2 Million or 204.88 Million pesos (sub-loan component)</li> <li>IPCLP II - DM 20.2 Million (sub-loan component)</li> </ul>	30 Million USD
Maximum loanable amount	Maximum of 80% of the total project cost	30 Million Pesos (the other brochure says 60 Million Pesos) or 80% of investment cost, whichever is lower	The FS cost is 3% of the total construction cost. The LGU's counterpart during FS preparation is in the form of time and services of the members of the Project Management Unit. The loan shall

	Environmental Infrastructure Support Credit Program (EISCP)	Industrial Pollution Control Loan Project (IPCLP)	LGU Urban and Water Sanitation Project (LGU-UWSP)
			be based on the total project cost with at least 10% equity participation, provided, the loan amortization shall not exceed 20% of the total income of the LGU, net of other borrowings.
Loan application requirements	<ol style="list-style-type: none"> <li>1. Company information/profile</li> <li>2. Description of overall project and environmental components of the project</li> <li>3. Project viability calculations</li> <li>4. Project risks</li> <li>5. Layout drawings for existing and/or proposed manufacturing/service plant/facilities and for pollution prevention or control systems showing: (a) Material balance for raw materials, products and waste streams; (b) Material balance for pollution prevention/control systems; (c) Untreated and treated waste stream concentration for applicable parameters such as BOD, COD, SO<sub>x</sub>, NO<sub>x</sub>, PM<sub>10</sub>, etc</li> <li>6. Description of existing/proposed pollution prevention/control systems</li> <li>7. Proposed list of major pollution prevention or control equipment and facilities with specifications</li> <li>8. Projected environmental benefits of the project (e.g. kg BOD removal, etc)</li> <li>9. Presentation of environmental self-monitoring system</li> <li>10. Detailed breakdown of estimated project cost</li> <li>11. IEE/EIS/ECC</li> </ol>	<p>Acceptable Security: Real Estate and/or Chattel Mortgage or any other collateral acceptable to the bank</p> <p>Loan application requirements are basically the same as that of EISCP</p>	<ol style="list-style-type: none"> <li>1. Letter of Intent</li> <li>2. Sangguniang Bayan Resolution</li> <li>3. Provincial/City/Municipal Accountant's Office - 3.1 General Fund-Post Closing Trial Balance for the past three years; 3.2 General Fund-Preliminary Trial Balance- Latest month for current year; 3.3 Statement of statutory loans obligations - include details of loan terms and amortization schedule(s) of existing loan(s); 3.4 Report of revenues and Receipts - for the past three years and latest for current year; and 3.5 Status of appropriations, allotments and expenditures for the past three years and latest for current year</li> <li>4. Provincial/City/Municipality Treasurer's Office - 4.1 BLGF RPTC Form No. 89-1; 4.2 monthly report of Real Property Tax Collection by property classification - basic as of the period ending the past three years and latest for current year; 4.3 Consolidated report on Collection and Delinquencies on Real Property Tax (General Fund) for the past three years and latest for current year</li> <li>5. Provincial/City/ Municipal Budget Officer's Office - 5.1 BLGF RPTA For 88-1; 5.2 quarterly report of Real Property Tax Assessment by property classification for the past five years and latest for current year; 5.3 Zonal land valuation for the city/municipality</li> <li>6. Provincial/City/ Municipal Budget Officer's Office - 6.1 Approved budgets</li> </ol>

	Environmental Infrastructure Support Credit Program (EISCP)	Industrial Pollution Control Loan Project (IPCLP)	LGU Urban and Water Sanitation Project (LGU-UWSP)
			<p>for previous and current years - Statement of Fund Operations showing the consolidated budgets of various offices categorized as General Public Administration, Social Service and Economic services; 6.2 Approved budgets of Economic Enterprises for previous and current years; 6.3 Local Budget Preparations Form No. 151-Certified Statement of Income for budget years previous and current for both the General Fund and Economic Enterprises; 6.4 Local Budget Preparation Form No. 151A - Certified Statement of Income and Expenditures for Budget Years previous and and current for both the General Fund and Economic Enterprises; and 6.5 Supplemental budgets for General Fund and Economic Enterprises, if any</p> <p>7. Provincial/City/ Municipal Planning and Development Coordinator's Office - 7.1 Table 1: Socio-Economic Data (population, no. of households, etc.); 7.2 Table 2: 5 year investment program (2000-2004)</p> <p>8. Provincial/City/ Municipal Personnel Office - 8.1 Table 3: Staffing pattern (include Casual and Contractual)</p> <p>9. Provincial/City/ Municipal Secretary's Office - 9.1 Number of business permits issued</p> <p>10. Provincial/City/ Municipal Engineer's Office - 10.1 Number of building permits issued per year from 3 years ago to current year 1997 , categorized as to residential, commercial, industrial and agricultural.</p>
Equity	<ul style="list-style-type: none"> <li>20%</li> </ul>	<ul style="list-style-type: none"> <li>20%</li> </ul>	<ul style="list-style-type: none"> <li>10%</li> </ul>

	Environmental Infrastructure Support Credit Program (EISCP)	Industrial Pollution Control Loan Project (IPCLP)	LGU Urban and Water Sanitation Project (LGU-UWSP)
Financing terms	<ul style="list-style-type: none"> <li>Interest rate - fixed rate of 9.0% + spread Not to exceed 3.0% (Subject to semi-annual review: March 31 and September 30 each year by DBP and JBIC)</li> <li>Loan amount per project - eligible expenditures of up to a maximum of 80% of the total project cost</li> <li>Repayment period - from 3 to 15 years with a maximum of 5 years grace period. Amortization payments shall be at least on a semi-annual basis</li> <li>Commitment fee - 0.75% per annum of the undisbursed amounts</li> </ul>	<ul style="list-style-type: none"> <li>Repayment term - up to 10 years with up to 2 years grace period</li> <li>Interest rate - 11 % fixed rate</li> <li>Commitment fee - 0.25% per annum on unreleased balance</li> </ul>	<ul style="list-style-type: none"> <li>Interest rate - 15% Fixed Rate or 11% p. a. for APL I (adaptable program loan) and APL 2 until year 2003, reviewable thereafter but not APL 2 to exceed 15%)</li> <li>Grace period on the principal - 3 years</li> <li>Repayment period - 15 years</li> <li>Loan amount: varies depending on the LGU s borrowing</li> </ul>
	<ul style="list-style-type: none"> <li>Interest rates range from 9 to 15% for fixed rates; 11% variable</li> <li>Commitment fee .25 to .75% per annum of undisbursed amount</li> <li>Repayment period ranges from 3 to 15 years; maximum is 16 years</li> <li>Grace period - 2 to 5 years grace period (LGU is only 3)</li> </ul>		
Approval rate (approved versus application)		ICPLP I - of the 70 loan inquiries and proposals, 25 projects were approved, totaling 204.88 MillionPesos (100% Of the total loan amount for the sub-project component)	70 FS on water projects were completed but only 45 were processed to procure contracts for construction and lease of the water system by private operators; Sub-loans to finance construction of 29 water systems were approved. However, only 14 projects were implemented
Utilization rate	<p>EISCP Phase I - 98% (the remaining 2% or P45 Million was added to EISCP Phase II)  <i>Note: the only reason why the 2% was not utilized was because of time constraint</i></p> <p>EISCP Phase II - the utilization rate for this expected to be a hundred percent because of the number of applicant (in Ms. Maghirang's opinion, the funds available for the second phase of EISCP is not enough to accommodate all borrowers)</p>	<p>IPCLP phase I - 100%</p> <p>IPCLP phase II - at this point, have poor implementation performance because of low approval rate and limited number of applicants</p>	Loan approval for 6 LGUs amounted to a total of Php 217 Million; loan releases amounted to Php 18 Million involving 11 accounts
Repayment rate			
Extent of availment			
Profile of borrowers	Big Industries and corporations	SMEs	LGUs

	Environmental Infrastructure Support Credit Program (EISCP)	Industrial Pollution Control Loan Project (IPCLP)	LGU Urban and Water Sanitation Project (LGU-UWSP)
Length of review and approval process			
Usual problems in loan applications	no problems were expressed because borrowers were mostly big corporations/industries with an established documentation system and who could afford to hire consultants to prepare technical requirements such as ECC or FS, if necessary	ICPLP Phase II: Level of implementation is low because SMEs do not want to spend on the necessary requirements such as ECCs and FS (or sometimes, the SME's cannot afford the additional cost; inclusion of FS in the cost of the loan is assessed on a case to case basis). Furthermore, the mentality of ' <i>hanggang makakalusot, lulusot</i> ' of some SMEs, hence putting the establishment of EI at the low end of their priority list	
Barriers to effective availment	no problems were expressed because borrowers were mostly big corporations/industries with an established documentation system and who could afford to hire consultants to prepare technical requirements such as ECC or FS, if necessary	<ul style="list-style-type: none"> <li>• Character of the SME borrower based on DBP's background check</li> <li>• Credit worthiness of SME</li> <li>• Credit risk of project</li> <li>• SMEs have problems meeting the documentary requirements of the bank</li> </ul>	<ul style="list-style-type: none"> <li>• Some LGU applicants have a hard time completing/meeting the documentary requirements of the facility</li> <li>• Willingness to connect survey sometimes yield results which makes the LGU application</li> <li>• Decisions are highly politicized, especially in tariff setting, which should reflect the true cost of the survey. The politicians are usually <b>unwilling</b> to increase tariff rate because this would have negative effects on their popularity rating.</li> <li>• Change in administration, given that the term of the LCE is only 3 years</li> </ul>
Implementation problems			<ul style="list-style-type: none"> <li>• Politicking</li> <li>• Political continuity since project may not be a priority of the next administration</li> <li>• Short term of LCE (only 3 years)</li> </ul>
	For EISCP, IPCLP and LGU-UWSP, poor enforcement of environmental laws is a big barrier since it decreases the demand for environmental infrastructure		
Assistance provided in prop prep?	DBP is providing technical advisory assistance, the cost of which is being shouldered by the bank, but not related to preparing the proposal	In IPCLP II, for specific problems, DB is supporting borrowers with the advisory service of international environmental technology experts. Technical Assistance as a grant is being provided by the Federal Government of Germany by sending experts	



	Environmental Infrastructure Support Credit Program (EISCP)	Industrial Pollution Control Loan Project (IPCLP)	LGU Urban and Water Sanitation Project (LGU-UWSP)
Capacities that need to be developed			
Means of info dissemination		ICPLP II - F or the year 2001, briefings and orientations were conducted in four area management offices (AMOs, now regional management offices) and one industry association to complement marketing activities for the facility. Marketing was also done	road shows were conducted to generate interest among LGUs who want to develop their watsan facility; 11 project briefings were conducted for DILG regional and provincial directors; 18 project briefings were also conducted at the provincial and municipal level
Info materials produced	Presentation materials, brochures and pamphlets		
Info channels	Print, internet , seminars/orientations	Print, internet , seminars/orientations	Road shows and project briefings

Annex B  
Land Bank of the Philippines

	Country Side Loan Fund Programs (CLF) <i>World Bank Funded</i>	Retail Countryside Fund (RCF) <i>World Bank Funded</i>	Water District Development Project (WDDP) <i>World Bank Funded</i>	LGU Support Credit Program <i>JBIC Funded</i>	Mindanao Basic Urban Services Sector (MBUSS) <i>ADB Funded</i>	Air Pollution Control Credit Facility (APCCF) <i>ADB Funded</i>
Project Description	A wholesale credit facility from the WB available thru LB to PFIs for relending to sub-borrowers	A credit facility from the WB available to private investment enterprises whose viable operations benefit the countryside	Aims to assist participating LGUs plan and implement sewerage and sanitation investments based on their residents' wishes and willingness to pay	The program augments the sources of development funds of LGUs through the extension of credit assistance. The end view is to reduce poverty and achieve social equity in the countryside	The program aims to improve quality of life of the urban population of Mindanao by (1) providing, upgrading and rehabilitating basic municipal infrastructure and services to increase productivity of the urban and per-urban economy; (2) improve the access of urban poor communities to basic municipal services; and (3) strengthening the institutional capacity and capability of LGUs in Mindanao to provide, manage and maintain adequate municipal services and basic urban services	Provides financing to private enterprises (sub-borrowers) for projects that will improve air quality or reduce air emissions in the Metro Manila Air Shed (NCR, Rizal, Batangas, Cavite, Laguna, Quezon, Bulacan, Pampanga and Bataan ) and other key cities (Cebu, Davao, etc.)
Eligible EI projects	Wastewater treatment facility, biogas facility, water system	Wastewater treatment facility, biogas facility, water system	<p>Trunk (capital) investments - sewerage, sanitation, drainage and wastewater treatment infrastructure; Will also finance FS and detailed design, construction and rehabilitation of sewerage main drains and wastewater treatment facilities</p> <p>Feeder investments in barangays - Water supply, sanitation, micro-drains, solid waste collection and disposal</p>	<ul style="list-style-type: none"> <li>Water systems project</li> <li>Flood control and sanitation</li> <li>Waste disposal projects to include construction of solid waste system, sewage treatment system and water treatment system</li> </ul>	<ul style="list-style-type: none"> <li>Sanitation, drainage and flood control, to include Low-cost sludge treatment facilities, Low cost waste water treatment facilities, and Sludge collection and transportation equipment</li> <li>Solid waste management</li> <li>Water supply, to include Rehab and</li> </ul>	<ul style="list-style-type: none"> <li>Purchase/installation of air quality monitoring equipment</li> <li>Purchase/installation of pollution control equipment</li> <li>Procurement of new processes and other source equipment</li> <li>Procurement of new and rehabilitation of an existing public transport fleet</li> </ul>

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					upgrading of existing source works, Treatment facilities and transmission systems, and Construction of new source works, deep wells, pumping facilities, low cost treatment facilities and transmission and distribution systems	
Targets/Eligible sub-borrowers	Private investment enterprises; cooperative association	Private investment enterprises; cooperative association	LGUs outside Metro Manila, to include provinces, cities and municipalities	LGUs that have no past due obligations and no adverse findings based on the credit and background investigation conducted by landbank	Municipalities, cities and provinces in Mindanao with urban population of at least 20,000	Sole Proprietorship, Partnership, corporations (70% Filipino-owned) and multi-purpose cooperatives
Project Location	nationwide	nationwide	Nationwide except for metro manila	Nationwide	Mindanao	Metro manila Air Shed (NCR, Rizal, Batangas, cavite, Laguna, Quezon, Bulacan, Pampanga and Bataan ) and other key cities (Cebu, Davao, etc.)
Total Program Funds	\$ 20 Million (USD)	\$ 30 Million (USD)	\$ 36.3 Million (USD)	\$ 53.35 Million (USD)	\$ 33.02 Million (USD)	\$ 25 Million (USD) or ₱ 3,057,375,000.00
Maximum loanable amt	CLF 1 and II, P300M	Min P25T		Minimum amount for JBIC loan component per LGU is Php 5 Million Maximum for sub-project preparation loan Php 3 Million		Max = ₱611,475,000.00 or its equivalent in Pesos

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	CLF III, P100M for priority sectors, P50M non-priority	Max P100M priority sector; P50M for non-priority sector				
Loan application requirements	<p>For CLF I and II, sub-borrower and/or PFI minimum equity share is 20%, though sub-borrower participation at PFI discretion</p> <p>For CLF III, either sub-borrower's minimum equity share is 15%</p> <p>Secured by tangible collaterals or acceptable guarantees</p>	<p>Start up or expansion project: borrower equity minimum is 15%</p> <p>Fully secured by tangible collaterals or acceptable guarantees.</p>	<p><b>Initial requirements:</b></p> <ul style="list-style-type: none"> <li>Sanggunian Borrowing resolution</li> </ul> <p><b>Processing Requirements:</b></p> <ul style="list-style-type: none"> <li>Audited financial statements for the past 3 years</li> <li>Approved budget for the current year</li> <li>List of elected officials and department heads</li> <li>Schedule of IRA for the past 3 years, including current year; and</li> <li>Collateral documents</li> <li>Setting up of a project management unit by the LGU</li> <li>FS if applicable and or Barangay environmental and sanitation plan (BESP)</li> </ul> <p><b>Conditions for Disbursement for Works and Goods:</b></p> <ul style="list-style-type: none"> <li>EIA, EMP and ECC</li> <li>Compliance with resettlement policy framework and procedural guidelines</li> <li>MOA with relevant local water district, if necessary</li> <li>Project Plans</li> </ul> <p><b>Acceptable Collateral</b></p> <ul style="list-style-type: none"> <li>Real estate mortgage (REM)</li> <li>Chattel mortgage</li> </ul>	<p><b>Processing Requirements:</b></p> <ul style="list-style-type: none"> <li>Sanggunian resolution authorizing the LCE to negotiate a loan with LBP</li> <li>COA Audited financial statements for the past 3 years</li> <li>Approved budget for the current year</li> <li>List of elected officials and key officers</li> <li>Schedule of IRA for the past 2 years, including current year;</li> <li>FS if applicable</li> <li>Standard documentary requirements such as evidence of ownership of offered collateral</li> </ul> <p><b>For Projects with Construction</b></p> <ul style="list-style-type: none"> <li>Cost estimates</li> <li>Project plans and specifications</li> <li>Bill of materials</li> <li>Work program, schedule duly approved by LCE and city/district engineer</li> </ul> <p><b>Acceptable Collateral</b></p> <ul style="list-style-type: none"> <li>Real estate mortgage (REM)</li> </ul>	Same as WDDP	

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			<ul style="list-style-type: none"> <li>Hold-out on deposits</li> <li>Assignment of the LGUs regular income including portion of IRA which in no case shall exceed 20% of the LGU's regular income</li> <li>Assignment of a portion of the LGUs IRA for the payment of the sub-loan</li> </ul>	<ul style="list-style-type: none"> <li>Chattel mortgage</li> <li>Hold-out on deposits</li> <li>Assignment of net income from sub-project to be financed</li> <li>Assignment of the LGUs regular income including portion of IRA which in no case shall exceed 20% of the LGU's regular income</li> <li>Assignment of a portion of the LGUs IRA for the payment of the sub-loan</li> </ul>		
Financing terms - interest rates, payment period, grace period, frequency of payment, maturity period	ST - up to 1 year (CLF I), MT - up to 5 years; LT - up to year 2011 (CLF I); 2015 (CLF II), and 2018 (15 years for CLF III)	<p>Interest Rates -Floating or fixed rate. Variable rate based on market rate and fixed rate based on prevailing variable rate plus premium. Negotiated between LB and sub-borrower.</p> <p>Commitment fee of 3/4 of 1% per annum will be charged for all loan approvals amounting to P5M and above</p> <p>Repayment Terms - ST max of 1 year ; MT - &gt; 1 year max of 5 years; LT - &gt; 5 years, max of 15 years</p> <p>Penalty fee - 3% of the amount pre-paid will be charged to any principal payment or successive payments</p> <p>Frequency of payment -</p>	<p><b>Project Sharing</b> - 90% LBP and 10% LGU</p> <p><b>Term</b> - up to December 31, 2016</p> <p><b>Interest rate</b> - 12% per annum, fixed rate</p> <p><b>Commitment fee</b> - 0.255 per annum to be charged to the undisbursed LGU loan</p> <p><b>Pre-termination fee</b> - 2% on the outstanding balance; cost overruns shall be borne by the participating LGU</p>	<p><b>Financing Schedule</b></p> <p>Sub project preparation Loan - 100%</p> <p>Sub-Project Investment Loan - 80% JBIC component, 10% LBP portion and 10% LGU equity</p> <p><b>Loan maturity</b> shall be in accordance with the LGUs cash flow but should not be less than 3 years but not more than 15 years inclusive of a maximum of 2 years grace period</p> <p><b>Interest rate for sub-project preparation loan</b> - 11% - 11.5% (fixed for the term of the loan and max of 3 years) while for <b>sub-project investment loan</b> - 11% to 13% fixed for the term of the loan</p>	<p><b>Interest rate fixed at 11%</b> for 1-5 year term; 12% for more than 5 to 10 year term; and 13% for more than 10 year term</p> <p><b>Term</b> is for a maximum of 15 years with 3 years grace period on principal payments</p> <p><b>Project cost sharing is based on the type of project and LGU classification</b></p> <p><b>Other fees</b> - commitment fee of 0.75%; front end fee of 1% on loan amount</p>	<p><b>Financing Mix</b> base don project cost - sub borrower min of 25%, landbank max of 75%</p> <p><b>Interest rate</b> - variable rate with a one time option to convert to a fixed rate; or a fixed rate which is the prevailing variable rate plus premium with no option to convert</p> <p><b>Repayment terms</b> - max repayment of 12 years with a max grace period of 2 years and 3 quarters on principal payment</p> <p><b>Commitment fee</b> of ¾ of 1% or 0.755 per annum</p> <p><b>Prepayment Penalty fee</b> of 0.125% of the principal amount of loan to be prepaid</p>

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		monthly (for short term), quarterly and semi-annual				
Approval rate - no. of approved applications vis-à-vis total applications	Almost 100% of proposal applied for this program are approved since the PFIs ensures that all project being applied to the program meet the requirements of LBP, i.e., documentary requirements and environmental requirements.					
Utilization Rate - percent utilized of approved loan amounts	100% At present, the program is using reflows or 2 <sup>nd</sup> generation fund(funds coming from repayment from 1 <sup>st</sup> releases).  Most EI projects are component of the entire project.	100% utilization rate due to special rates. Loans are mostly given to succeeding/existing borrowers limiting entry of new borrowers.	54% as of August 2005	60% AS OF august 2005, facuility is open ntil	8% as of August 2005 (loan availability is only up to December 31, 2007)	21% only  LBP paid as much as Php 25 Million in commitment fees and since they had problems marketing the facility, they cancelled the loan in 2003
EQUITY						
Extent of availment		90-92%	54%	60%	8%	21 % - only 4 borrowers before the loan facility closed in 2003

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Profile of Borrowers - type of org, location, ave loan amount, type of project						
Length of Review and approval process			1 week if all requirements submitted by LGUs are complete			
Usual problems in loan applications		Weak financial analysis and projections.	Incomplete requirements  Coordination with DILG tend to be slow			
Barriers to effective availment and utilization of EI funds		Facility is limited to SMEs with assets not exceeding P1M.	Changing priorities of LGU officials which result to postponement or shelving of approved projects		<ul style="list-style-type: none"> <li>Defect in program design</li> <li>LGUs need to be capacitated first by DILG.</li> <li>LBP cannot release funds if LGUs are not trained in operation and management of facility to be set-up</li> </ul>	<ul style="list-style-type: none"> <li>The loan facility was signed in 1998, during which the clean air act was not signed. CAA was signed in 1999 and its IRR was released in 2000</li> <li>The borrowers, at that time, did not see the need to invest in an additional cost that was not yet required</li> <li>Borrowers could not 2 years to access a loan</li> <li>No need for industries to invest in EI because of lax in enforcement</li> <li>No fines being applied</li> </ul>

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Implementation problems		Weak financial statements and projections	Politicking BEFORE and AFTER negotiations			<ul style="list-style-type: none"> <li>Delayed project (MMAQIP) implementation because of delay in budget release of DBM</li> <li>Why avail of the loan when there is no advise from DENR that CAA should be implemented</li> </ul>
Does institution provide proposal preparation assistance?	Yes, TA in FS preparation and complying with requirements.  However, in most of the projects financed, LB dos not require an FS. Usually, business plans are the only thing required.		YES, for all Land Bank Facilities, proponents are assisted by Account Officers at the field level. Assistance comes in the form of orientations to clients, provision of pro-forma forms that are relatively easy to fill up, in the preparation and packaging of proposals.  LB has an Environmental Unit at the Central Office, which regularly provides trainings to account officers nationwide, thus providing them with the necessary knowledge and skills to assist their proponents in assessing projects and packaging proposals.			
What capacities need to be developed?		Conducting consultation between LBP and proponents; networking; information dissemination				
Does org have in-house environment and project dev experts?	YES, LBP has an environmental unit at the central office, which assesses ALL projects, applied for financing for environmental compliance. The environmental unit then provides recommendations for those that do not meet the minimum environmental standards. The environmental unit of LBP also goes as far as monitoring projects' environmental compliance even AFTER the release of funds.  LBP was certified as ISO 14001 compliant in June 2005					



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Cost of proposal preparation						
Length of proposal preparation						
Means of info dissemination		conduct of roadshow (through briefing and orientation); account officers				Road shows Facility is marketed as an investment that increases productivity, efficiency and profitability of the SME or industry
Info materials produced	Brochures	brochures, advertisements, promotional campaigns	Brochures, client orientations,	Brochures		Brochures, client orientations, info dissemination through the project (metro manila air quality improvement project), active marketing to existing clients
info channels	Print, media, internet, client presentations, advertisements	booth participation with DTI, film showing, radio advertisement, forum	Print, media, internet, client presentations, advertisements	Print, media, internet, client presentations, advertisements		Print, media, internet, client presentations, advertisements, advertisements

**Annex C: Matrix/ List of Financial / Donor Institutions and Project Contacts**

Organization/ Funding Source	Project Title	Implementing Agency/Conduit	Contact Information																																																
Japan Bank For International Cooperation (JBIC)	Environmental Infrastructure Support Credit Program II (EISCP II)	Development Bank of the Philippines	DEVELOPMENT BANK OF THE PHILIPPINES (DBP) Head Office: Sen. Gil J. Puyat Ave. cor. Makati Avenue, Makati City  Wholesale Banking Sector DBP Head Office, Sen. Gil J. Puyat Ave., Makati City Phone: (632) 818.9511 locals 3511 & 3519  Ms. Euphemia Mendoza 1 <sup>st</sup> Vice-President for Program Development Ms. Aurora Maghirang Senior Assistance Vice-President, DBP Environmental Unit  Environmental Management Unit DBP Head Office, Sen. Gil J. Puyat Ave., Makati City Phone: (632) 818.9511 locals 2515 & 2546 Phone/Fax: (632) 812.8088  or  DBP Regional Management Offices <table><tr><td>Location</td><td>-</td><td>Contact Number</td></tr><tr><td>Tuguegarao City</td><td>-</td><td>(078) 844.1468</td></tr><tr><td>Dagupan City</td><td>-</td><td>(075) 523.7835</td></tr><tr><td>San Fernando</td><td>-</td><td>(045) 961.5834</td></tr><tr><td>Lucena City</td><td>-</td><td>(042) 373.1917</td></tr><tr><td>Legazpi City</td><td>-</td><td>(052) 820.2399</td></tr><tr><td>Cebu City</td><td>-</td><td>(032) 254.9163</td></tr><tr><td>Tacloban City</td><td>-</td><td>(053) 325.2960</td></tr><tr><td>Iloilo City</td><td>-</td><td>(033) 337.6432</td></tr><tr><td>Bacolod City</td><td>-</td><td>(034) 434.9177</td></tr><tr><td>Cagayan de Oro City</td><td>-</td><td>(08822) 722.647</td></tr><tr><td>Butuan City</td><td>-</td><td>(085) 341.5136</td></tr><tr><td>Davao City</td><td>-</td><td>(082) 221.2620</td></tr><tr><td>Gen. Santos City</td><td>-</td><td>(083) 552.2952</td></tr><tr><td>Zamboanga City</td><td>-</td><td>(062) 991.1313</td></tr><tr><td>Quezon City</td><td>-</td><td>632) 920.4781</td></tr></table>	Location	-	Contact Number	Tuguegarao City	-	(078) 844.1468	Dagupan City	-	(075) 523.7835	San Fernando	-	(045) 961.5834	Lucena City	-	(042) 373.1917	Legazpi City	-	(052) 820.2399	Cebu City	-	(032) 254.9163	Tacloban City	-	(053) 325.2960	Iloilo City	-	(033) 337.6432	Bacolod City	-	(034) 434.9177	Cagayan de Oro City	-	(08822) 722.647	Butuan City	-	(085) 341.5136	Davao City	-	(082) 221.2620	Gen. Santos City	-	(083) 552.2952	Zamboanga City	-	(062) 991.1313	Quezon City	-	632) 920.4781
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Kreditanstalt fur Wiederaufbau (KfW)	Industrial Environmental Protection Phase I and Phase II	Development Bank of the Philippines																																																	
Kreditanstalt fur Wiederaufbau (KfW)	Provincial Towns Water Supply Program Phase I and II																																																		
Kreditanstalt fur Wiederaufbau (KfW)	Sustainable Solid Waste Management Program (also known as Credit Line for Solid Waste Management)	Development Bank of the Philippines	DEVELOPMENT BANK OF THE PHILIPPINES (DBP) Head Office: Sen. Gil J. Puyat Ave. cor. Makati Avenue, Makati City  Program Management I 5F DBP Bldg., Makati Ave. cor. Sen. Gil J. Puyat Ave., Makati City Phone: (632) 893.4444; 818.9511 local 2546 Fax: (632) 893.5380  Fund Sourcing 3F DBP Bldg., Makati Ave. cor. Sen. Gil J. Puyat Ave., Makati City Phone: (632) 815.0916; 818.9511 local 2320																																																

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			Fax: (632) 815.1611  <b>Program Lending 3</b> 4F DBP Bldg., Makati Ave. cor. Sen. Gil J. Puyat Ave., Makati City Phone: (632) 818.0942; 818.9511 local 3411 Fax: (632) 817.0509
WorldBank	Manila Second Sewerage Project	MWSS/MWSI – implementing agency	Metropolitan Waterworks and Sewerage System (MWSS)/ Maynilad Water Services, Inc. (MWSI) MWSS Compound, Katipunan Road Balara, Quezon City
WorldBank	Manila Third Sewerage Project	LBP - borrower MWSS/MWCI – implementing agency LBP - borrower	Contact: Engr. Francisco Arellano Senior Assistant Vice President, Environment Management Department and Corporate Communications  Phone: +02-9205408
WorldBank	Laguna de Bay Institutional Strengthening and Community Participation (LISCOP) Project	Laguna lake Development Authority (LLDA)	<b>LAGUNA LAKE DEVELOPMENT AUTHORITY (LLDA)</b>  <i>Contact Person:</i> Casimiro A. Ynares III, MD General Manager Rizal Provincial Capitol Compound, Shaw Boulevard Pasig City. Tel. Nos. (02) 637-3250 or (02) 637-9037 Telefax (02) 631-4157 E-mail: <a href="mailto:llda@denr.gov.ph">llda@denr.gov.ph</a> Website <a href="http://www.llda.gov.ph">http://www.llda.gov.ph</a>
WorldBank	LGU Urban and Water Sanitation Project (LGU-UWSP)	DILG/DBP	<b>DEPARTMENT OF INTERIOR AND LOCAL GOVERNMENT (DILG)</b> DILG Bldg., A. Francisco Gold Condominium II EDSA corner Mapagmahal Street Diliman, Quezon City  <i>Contact Person:</i> Ms. Fe Crisilla M. Bautista Assistant Program Manager Water Supply and Sanitation Project Management Office  Tel. 928-6357 Fax 925-0362 Email <a href="mailto:fcmbanluta@yahoo.com">fcmbanluta@yahoo.com</a>
WorldBank	Local Government Finance and Development Project	DOF	<b>DEPARTMENT OF FINANCE LOGOFIND Project</b> Municipal Dev't Fund Office Podium Level, Department of Finance Building Bangko Sentral Complex Roxas Blvd., Manila  <i>Contact Person:</i> Lilani Magdamo Project Manager Phone: +02-525-9186/88 Fax: +02-525-9187 Email: <a href="mailto:logofind@edsaemail.com.ph">logofind@edsaemail.com.ph</a> URL: <a href="http://www.dof.gov.ph/">http://www.dof.gov.ph/</a>
WorldBank	Retail Countryside Fund	LBP	<b>LANDBANK OF THE PHILIPPINES</b> 18 <sup>th</sup> Floor, LANDBANK Plaza

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	II (RCF II)		1598 M.H. del Pilar cor. Dr. J. Quintos St. Malate, Manila Website <a href="http://www.landbank.gov.ph">http://www.landbank.gov.ph</a>  <i>Contact Person:</i> Ms. Vilma Calderon Assistant Vice-President Tel. Nos. 405-7339; 551-2200; 522-0000; 450-7001 locals 2448, 7238, 2582, 7339 Fax No. 528-8523 Email <a href="mailto:vcalderon@mail.landbank.com">vcalderon@mail.landbank.com</a>
World Bank	Countryside Loan Fund	LBP	LANDBANK - Wholesale Lending Department  <i>Contact Person:</i>
World Bank	Water Districts Development Project	LBP	LANDBANK -
US AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)	The Philippine EcoGovernance (EcoGov)	USAID	OFFICE OF ENERGY AND ENVIRONMENT US AGENCY FOR INTERNATIONAL DEVELOPMENT 8F, PNB Financial Center Pres. Diosdado Macapagal Boulevard 1308 Pasay City  Tel. No. (632) 552-9834 Fax No.: (632) 552-9997 URL: <a href="http://www.usaid-ph.gov">www.usaid-ph.gov</a>
	Local Initiatives for Affordable Wastewater (LINAW)	USAID	
	Sustainable Coastal Tourism in Asia - Philippines (SCOTIA)	USAID	
VARIOUS JBIC, USAID, LGUGC	Municipal Water Loan Financing (MWLF)	DBP	
	Philippine Water Revolving Fund	DBP	
Philippine Economic Zone Authority			PHILIPPINE ECONOMIC ZONE AUTHORITY (PEZA)  2/F, Almeda Building, Roxas Blvd., cor. San Luis St. Pasay City Tel No.: (632) 551-9526; 551-6561 Telefax: (632) 551-3439 Website <a href="http://www.peza.gov.ph">http://www.peza.gov.ph</a>  Ms. Tonilyn P. Lim Officer-in-Charge Environmental Safety Group Email <a href="mailto:engg_envtl@peza.gov.ph">engg_envtl@peza.gov.ph</a>
LGU Guarantee Corporation			LGU Guarantee Corporation (LGUGC) Unit 2801, 28F Antel 2000 121 Valero St., Salcedo Village Makati City Tel No: (632) 751-8764 to 68 Fax No.: (632) 888-4217 URL: <a href="http://www.lgugc.com">www.lgugc.com</a>  Mr. Hernesto D. Hernandez, Jr. Corporate Planning Officer Email <a href="mailto:hboy_ernest@yahoo.com">hboy_ernest@yahoo.com</a>

Annex C: Matrix/ List of Financial / Donor Institutions and Project Contacts

Organization/ Funding Source	Project Title	Implementing Agency/Conduit	Contact Information
Rizal Commercial Banking Corporation			<p>Rizal Commercial Banking Corporation (RCBC)  11<sup>th</sup> Floor Yuchengco Tower, RCBC Plaza  6819 Ayala Avenue, Makati City  Tel. No. 894-9830  Fax No. 894-9980; 894-9907</p> <p><i>Contact Person:</i>  Mr. Renato V. Carpio  First Vice President  Head, Corporate Division I  Email <a href="mailto:rvcarpio@rcbc.com">rvcarpio@rcbc.com</a></p>
Local Water District Utilities Administration			<p>LOCAL WATER DISTRICT UTILITIES ADMINISTRATION (LWUA)  MWSS-LWUA Complex, Katipunan Road, Balara, Quezon City  Telephone no. 9205581 to 89, FAX (00632) 9223434  Website: <a href="http://www.lwua.gov.ph">http://www.lwua.gov.ph</a></p> <p><i>Contact Person:</i>  Mr. Manny Yoingo  Manager, Management Services Office</p>
Environmental Management Bureau-DENR			<p>ENVIRONMENTAL MANAGEMENT BUREAU  DENR Compound, Visayas Avenue, Diliman, 1100 Quezon City</p>
Department of Agriculture			<p>Ms. Nieva Natural  Office of Planning</p>
Department of Science and Technology - Philippine Council for Agriculture, Forestry and Natural Resources Research and Development(PCCRD)			<p>Mr. Patricio Paylon  Executive Director  Los Baños, Laguna  Tel. Nos. (63-049) 536-0014 to 536-0015/ 536-0017 to 536-0020 &amp; 536-0024  Fax Nos. (63-049) 536-0016/ 536-7922  E-mail: <a href="mailto:pcarrd@pcarrd.dost.gov.ph">pcarrd@pcarrd.dost.gov.ph</a>  Website: <a href="http://www.pcarrd.dost.gov.ph/">http://www.pcarrd.dost.gov.ph/</a></p>
Department of Finance - Municipal Development Fund			<p>Mr. Lito Pardo</p> <p>DOF Bldg., BSP Complex, Roxas Blvd., 1004 Metro Manila</p> <p>Tel: + 632 404-1774 or 76  Fax: + 632 521-9495  Email:<a href="mailto:hotline@dof.gov.ph">hotline@dof.gov.ph</a></p> <p>Website: <a href="http://www.dof.gov.ph">http://www.dof.gov.ph</a></p>
Department Trade and Industry - Build-Operate-Transfer Center			<p>Mr. Joey J. Palabrica  Director  Environment and Power Projects Division  DTI, 385 Industry and Investments Bldg., Sen. Gil Puyat Ave., Makati City  Telephone: (63-2) 895-3611  Fax: (63-2) 895-6487  Email: <a href="mailto:web@dti.dti.gov.ph">web@dti.dti.gov.ph</a>  Website: <a href="http://www.dti.gov.ph">http://www.dti.gov.ph</a></p>