Report Number: ICRR14874

IEG ICR Review
Independent Evaluation Group

1. Project Data:		Date Posted:	10/08/2015	
Country:	Philippines			
Project ID:	P070899		Appraisal	Actual
Project Name:	Laguna De Bay Institutional Strengthening And Community Part	Project Costs (US$M):	25.01	13.35
L/C Number:		Loan/Credit (US$M):	15.00	6.83
Sector Board:	Environment	Cofinancing (US$M):	5.00	4.24
Cofinanciers:	Government of the Netherlands	Board Approval Date:		12/04/2003
		Closing Date:	01/31/2009	04/30/2014
Sector(s):	General water; sanitation and flood protection sector (100%)			
Theme(s):	Pollution management and environmental health (29%); Environmental policies and institutions (29%); Participation and civic engagement (28%); Water resource management (14%)			

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2. Project Objectives and Components:

a. Objectives:

According to the PAD, the overarching objective of the proposed project was to assist the Laguna Lake Development Authority (LLDA), Local Government Units (LGUs) and other stakeholders to improve the environmental quality of the Laguna De Bay watershed (p.3).

Schedule 2 of the original Loan Agreement (LA) dated January 2004, framed the Project Development Objective (PDO) in virtually identical terms: "The objective of the Project is to assist the Borrower to improve the environment quality of the Laguna de Bay Watershed".

IEG adopts the PDO statement in the Loan Agreement.

The project development objective was not revised.

The project was restructured six times. Additional financing agreement was signed during the fifth restructuring. It also involved: (a) increasing the sub-projects target from 33 to 50; (b) dropping two indicators relating to River Councils (RCs); and (c) adding a few time related activity indicators. IEG has judged that there was no revision of the key associated outcome targets due to restructuring.

b.Were the project objectives/key associated outcome targets revised during implementation?

No

c. Components:

The project had two components.

Component 1: Micro-watershed Environmental Interventions (Appraisal estimate USD $ 17.13 million and Actual cost

USD $ 8.23 million). This component supported demand-driven micro-watershed interventions (sub-projects) that were designed to improve the quality of the environment of watershed through: (a) detailed preparation of selected and prioritized sub-projects; and (b) implementation of selected sub-projects prepared by the Local Government Units within the Laguna de Bay (LGUs), financed through a mix of grants and loans. The cost associated with the implementation, and the monitoring/supervision activities, of the sub-projects was financed through the IBRD loan, detailed preparation of sub-projects was financed through a grant from the Government of the Netherlands (GoN).

As part of the fifth restructuring, US$10 million, the Additional Financing (AF) under Component 1 was exclusively used for the implementation of the 17 additional micro-watershed interventions (33 sub-projects were already completed under the original loan).

Component 2: Institutional Development (Appraisal estimate USD $ 6.20 million and Actual cost USD $ 5.04 million). This component: (a) assisted Laguna Lake Development Authority (LLDA) to implement its re-engineering program and strengthen its role as the apex body for management of the Laguna De Bay watershed; (b) developed environmental protection and management capacity of LGUs, river councils (RCs) and watershed stakeholders; (c) provided support for project coordination and management; and (d) established a monitoring and evaluation (M&E) framework, and disseminated lessons learnt. All activities under this component were to be financed through the GoN grant.

As part of the fifth restructuring, the counterpart contribution of AF under Component 2 was used to: (a) carry out the detailed preparation of sub-projects (through LGU resources); and (b) deepen the institutional development initiatives under this Component (through LLDA resources).

Restructuring

The project was restructured six times (12/16/2008, 01/07/2010, 07/20/2010, 01/19/2011, 05/12/2011 and 04/07/2013).

12/16/2008: Closing Date was extended by 12 months to January 31, 2010 to enable the local governmental units to complete the sub-projects and the Laguna Lake Development Authority to further refine and mainstream the planning, regulatory and economic instruments to manage the lake and its watershed.
01/07/2010: Closing Date was extended by six months to July 31, 2010 to enable the affected local governments units to complete the sub-projects in those sites that were submerged by the flooding, and rehabilitate the sub-projects that were damaged, as a result of the flooding caused by Typhoons Ondoy and Santi.

07/20/2010: Closing Date was extended by six months to January 31, 2011 to enable the LLDA to secure confirmation from the National Economic Development Authority (NEDA) for the proposed US$10 million AF to provide time to the LGUs to complete three delayed sub-projects and to allow adequate operation and maintenance of commissioned sub-projects

01/19/2011: Closing Date was extended by three months to April 30, 2011 to allow the Office of the President to complete its review of the proposed AF of US$10 million.

05/12/2011 : Additional Financing (loan signed) was made to increase in the sub-projects target from 33 to 50. In this process two indicators relating to River Councils (RCs) were dropped; and some time-related activity indicators were added.

04/07/2013: Partial funding of US$4.5 million under additional financing was cancelled, due to: (i) to the project financing terms becoming less attractive; (ii) disruption in implementation from the 2013 local elections; and (iii) difficulties in securing internal approvals for borrowing for sub-projects by the local governmental units.

d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:

Project Cost:

Total actual project cost was US$ 13.35 million instead of the total appraised project cost estimate of US$ 25.01 million.

Financing:

The total actual financing was US$ 11.07 million, of which US$6.83 million was from IDA and US$4.24 million was from the GoN as compared with a total of US$20 million at appraisal (US$15 million from IDA and US$5 million from the GoN)..

Borrower Contribution:

The Borrower contribution decreased from US$ 5.01 million at appraisal to US$ 2.28 million.

Dates:

The closing date of the project was extended four times for a total of 27 months. The project closed on 04/30/2014 instead of 01/31/2009 as originally planned

3. Relevance of Objectives & Design:

a. Relevance of Objectives:

Substantial

During conception, the PDO was consistent with the Bank's Country Assistance Strategy (CAS 2002-2007) for the Philippines and the World Bank Water Resources Sector Strategy (WRSS) strategy (2003). In terms of the national priority, the PDO aligned with the long-term engagement of the Bank with the water sector in the Philippines over a period of 30 years (ICR, pp.4,20).

According to the CAS, PDO aimed to help arrest the declining resource base in the country. It also supported its other goals such as to: (a) encourage environmentally sustainable urban and rural development; (b) improve governance through civil society participation; (c) assist LGUs to deliver public services more effectively; and (d) ensure environmental sustainability through an integrated approach to watershed management and improved environmental governance.

The PDO was consistent with the integrated water resources management approach of the WRSS framework to define, prioritize and support practical incremental actions. The PDO called for the support of the sub-sectors identified in the strategy, which included: water supply and sanitation; irrigation and drainage; energy; environmental services; and other services, including industry and navigation.

At closure, the PDO continued to be relevant to the current Country Partnership Strategy (CPS) for 2015-2018 in improving watersheds and reducing pollution. The PDO also remains aligned with the CPS Engagement Area 4.2 to improve natural resource management and sustainable development. Three key indicators provided in the CPS relate to: integrated water resources management, reduced pollution in Manila Bay, and additional support through flood control measures. Lastly, the PDO is coherent with the efforts of the Government of the Philippines (GoP) to reduce environmental pollution from gaseous, liquid and municipal wastes (p.15, ICR).

Given the level of relevance of the PDO at the time of conception and closure, IEG has judged the relevance as substantial

b. Relevance of Design:

There was no change to the design as part of restructuring, including additional financing.

Substantial

The design was appropriate to advance the continued engagement of the Bank with the water sector in the Philippines. It was grounded in the results from stakeholder consultations, including LGUs and the National Commission for Indigenous Peoples. The statement of objective was clear and components were strategically selected to enable the proposed development outcome.

Within the Laguna de Bay watershed, the project design aimed to address several WRSS issues in the strategy, such as: (a) strengthening the institutional framework by refining the role of LLDA, LGUs, watershed stakeholders and their coordination through river councils (RCs); (b) strengthening the management framework through improved regulatory measures on water quality; (c) introducing incentives for environmental management through public disclosure of environmental performance; (d) improving planning through the LLDA's decision support system; (e) refining participatory micro-watershed planning within RCs; (f) increasing financing of watershed interventions; and (g) providing a project development and financing framework for development and management of community and small-scale infrastructure for water quality protection.

Risks were identified and supported with mitigation measures. The results framework clearly linked the outcomes with the PDO, and captured the on-the-ground reality of the Project. Applicable safeguards were triggered as part of design.

The project was restructured six times and none of the restructuring warranted any change to the design and /or objective and components. This further validates the adequacy of the design.

At closure, the design continued to remain relevant in demonstrating the importance of securing stakeholder buy-in through a participatory process involving LGUs, communities and civil society organizations in developing micro-watershed sub-project interventions.

Based on the relevance of the design throughout the duration of the project, IEG has judged the relevance of design as substantial.

4. Achievement of Objectives (Efficacy):

Substantial

As mentioned in 2a, the objective of the Project is to assist the Borrower to improve the environment quality of the Laguna de Bay Watershed. The PDO was not revised.

Given the focus of the Project on water quality in the Laguna de Bay Watershed, IEG views improved water quality as the equivalent of improved environment quality in the Watershed.

Outputs

1) 1239 enterprises or an additional 732 firms complied with discharge permits (Achieved 158% of the target of 464 additional firms and baseline of 507 firms)
2) 1644 men and women participated in the stakeholder-based planning process (Achieved 300% of the target increase of 30% in participation -- from 249 men and 162 women at baseline to 1,080 men and 564 women)
3) Measurable reductions recorded in the management information system (MIS) of environmental pressures and adverse impacts in all 51 micro-watershed subprojects (Achieved 100% of target 51).
4) Multi-stakeholder planning process conducted in 24 micro-watersheds (Achieved 100% target)
5) 51 micro-watershed sub-projects identified and feasibility studies completed (Achieved 102% of the targeted 50 sub-projects identified and feasibility studies completed)
6) 32 Subproject Loan Agreements (SPLA) signed (Achieved 92% of the targeted 35 SPLAs)
7) 42 subprojects approved for funding were implemented and completed (Achieved 80% of the target 51 sub-projects actually commissioned and operational; remaining 9 were at various stages of construction/ completion)
8) Improved data management systems completed and in use (Achieved. Decision Support System in place; Laguna de bay Information Resource Information System prototype (LDBRIS), PMES, GIS-based Map-Server for industries, aquaculture and shore-land modules completed)
9) 3321 firms covered by Environmental User Fee System (EUFS). (Achieved 157% of targeted 2482 firms to be covered by EUFS)
10) 10 Public Disclosure Programs (PDPs) completed: 6 - Industry; 4 – LGU (Achieved 200% of the 5PDP target)
11) Seven Annual Conference/Learning Forum conducted (Achieved)
12) Three Public perception survey reports on effectiveness of IEC (Information, Education and Communication) programs completed and shared with the Bank (Fully achieved target --at least twice by end of project)
13) 56 watershed management related resolutions approved and/or enforced (Achieved 112% of target 50 resolutions. This is based on the latest count of actual resolutions that were enforced)
14) A trunk infrastructure strategy defining the participation of the private sector through Build Operate and Transfer Schemes (BOT) was developed (Achieved).
15) Seven publications of Laguna de Bay Environment Monitor (LdBEM) completed by LLDA (Achieved).

Outcomes

IEG has identified two main outcomes reported by the ICR as being critical to achieving the PDO to improve environmental/water quality in the Laguna de Bay Watershed: (1) reduced biochemical oxygen demand (BOD) and other pollutants; and (2) increased revenues from the Environmental User Fee System (EUFS). Both outcomes have been substantially achieved.

First, BOD reduction was measured for three Waste Water Treatment Facilities (WWTFs) that were funded and constructed under the project for abattoirs of Nagcarlan, Lucban and Sta. Cruz. The first two WWTFs discharged effluent to tributaries and thus to Laguna de Bay with BOD values significantly lower than the national standard (BOD value from treated effluent was < 10 ppm as opposed to 50 ppm for the effluent limit). The third WWTF reduced contaminant levels by 99% utilizing an anaerobic digestion process and an engineered reed bed.

Second, there was substantial increase from the EUFs. Actual EUF revenue was Php 130 million, reflecting an increase of Php 75 million, or 545% of Php 13.75 million target.

However, IEG noted two minor shortcomings. They are: (i) results framework validated achievement of reduced BOD based only on the 1080 firms covered by the EUFS in 2003; and (ii) no results were reported on total suspended solids (TSS), the other potential measure of water pollution recorded in the ICR.

Finally, disruption in implementation from the 2013 local elections was noted as an external factor that may have potentially detracted from achievement of the PDO.

5. Efficiency:

Modest

The overall economic rate of return (EIRR) was not calculated at closure and at appraisal due to the demand driven nature of the sub-projects.

According to the project appraisal document, the EIRRs of the investments from Component 1 was estimated to be in excess of 25 per cent. The expected EIRRs of the representative sub-projects were estimated to be significantly larger than the amount estimated in the financial analyses that included solely financial benefits and did not include other economic benefits of the sub-projects (such as health benefits associated with a reduction of water pollution, and off-site environmental benefits). With regard to Component 2, though a number of activities to be undertaken under the component were not expected to immediately generate additional fiscal revenues to LLDA (such as studies and policy planning support), but, expansion of the existing environmental user fee system to include total suspended solids (TSS) was expected to generate revenues of approximately Php 100 million on an annual basis, in addition to PhP 285 million from water abstraction fees.

At closure an EIRR was calculated separately for the two components

Component 1: 33 sub-projects commenced under the original financing and functioning for about 2-3 years were considered for calculating IRR and EIRR, based on 15 year operating period. Of the four types of sub-projects, the waste water treatment sub-project yielded a negative Net Present Value (NPV) since no fee was collected. There were three sub-projects of this type. Agro-forestry provided the highest IRR (37%) and there was only one project of this type. The environmental improvement showed an IRR of 11%. There were 6 sub-projects of this type. The material recovery facility (MRF) (the largest cohort with 17 interventions) yielded an IRR of 8%. Though according to the Annex 3 of the ICR, 30 of the 33 sub-projects yielded positive IRRs and NPVs, in sum only 27 sub-projects out of 33 sub-projects were considered for IRR calculations, including 3 waste water sub-projects that had negative NPV (Annex 3). Further, it was also noted that waste water facility sub-projects yielded highest EIRR though it was not financially viable.

Micro-watershed Environmental Interventions were further supported under additional financing using the demand-driven approach. Of the 18 sub-projects financed and implemented, eleven were only recently commissioned (within six months prior to project closing), and others were yet to be commissioned. Therefore, an ex-ante analysis based on the appraisal data was carried out for material recovery facility, environment improvement, land fill, flood control and waste water facility. Only four sub-projects, except flood control showed financial viability while all five were economically viable. However, there was no information on the number of each category of sub-project.

Component 2: While a number of activities under the component were not expected to immediately generate additional fiscal revenues for LLDA (such as studies and policy planning support), the additional income from expansion of the existing environmental user fee system for total suspended solids(TSS) and COD and, implementation of the water abstraction pricing policy are reported with no evidence (such as increase in %).

While IEG recognizes the above achievements, some critical shortcomings are noted. The ICR reported that ERR was calculated for 33 sub-projects under original financing, but, only 27 sub-projects were covered and the additional section did not indicate the number of sub-projects under each category, thus not only creating ambiguity in assessing the ERR, but also reflecting inadequacy of the reported EIRR. The additional income from the expansion of EUFS for TSS and COD and implementation of the water abstraction pricing policy also lacks substantiation. While additional financing was completed in 5/11/2011 to increase sub-project numbers from 33 to 50, only 33 were still implemented. Partial funding of US$4.5 million under additional financing was cancelled less than two years in 4/7/2013 due to a lack of demand and difficulties in securing internal approvals for borrowing for sub-projects by the local governmental units, in addition to implementation delays. The project was implemented over a period of ten years and underwent six restructuring, of which, one was for additional financing. Given the above IEG has judged achievement of efficiency as ‘Modest’.

a. If available, enter the Economic Rate of Return (ERR)/Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point Value	Coverage/Scope*
Appraisal	No		
ICR estimate	No		

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome:

The relevance of the project objective and design are rated substantial. The efficacy is rated substantial and efficiency is rated modest. Therefore, outcome is Moderately Satisfactory.

a. Outcome Rating: Moderately Satisfactory

7. Rationale for Risk to Development Outcome Rating:

There are three critical risks to development outcome. They are: (a) funding for operations and maintenance (O&M); (b) commercial nature of some sub-projects and (c) household attitudes and income streams from some sub-projects.
Although the LGUs were obligated to provide annual budgetary support for O&M of the sub-projects, there were instances where several sub-projects were affected by O&M issues. This, among other reasons, could have been the result of inadequate resources at the LGU level (particularly in case of the low-income LGUs) or due to other political factors.

Secondly, the risk from the market based (commercial) nature of some sub-projects involving ecotourism and environment enhancement appeared to be imminent, given that there was no separate management team for such sub-projects to take forward accounting on a cost-center type approach rather than a profit center approach. This would require LGUs to closely work with the Department of Tourism and perhaps put a private sector management arrangement in place. At project closure, there was no such provision.

Household attitudes and income streams from some sub-projects were yet another major risk, considering that the sustainability of the material recovery facilities depended on the upstream segregation of the waste at the household level, which was not happening in all sub-projects. Further, the financial viability of such sub-projects depended on the levy of collection fees and the sale of recyclables and compost. In many sub-projects, there was no collection fee and there was a limited market for the sub-project generated compost. Also, there was no back up facility for additional waste cells once the existing cells were filled up.

a. Risk to Development Outcome Rating : Significant

8. Assessment of Bank Performance:

a. Quality at entry:

The project was prepared in a very comprehensive manner with government commitment to LLDA and its transformation into a regulatory development authority. The design was built on LLDA's existing rationalization plan to bring in regulatory instruments, develop decision support systems to facilitate policy planning, and introduce other initiatives.

Extensive stakeholder consultations and lessons from earlier projects and assessments were key elements of preparation. Some of the lessons incorporated into the design included : (i) using a micro-watershed-based planning process to identify investments and promote adoption of the planning framework within LGUs and River Councils; (ii) deploying a formal, participatory approach to sub-project development and implementation through the multi-stakeholder River Councils (RCs) ; and (iii) training LGUs to implement sub-projects, and also incorporating an O&M plan in their annual budget for sustainability of the sub-projects.

The project team piloted the participatory Laguna Watershed Environment Action Plan (LEAP) approach during preparation to pre-test the process and also generate a bundle of initial sub-projects to kick start project implementation. It weaved sub-project financing into the National Government (NG-LGU) cost sharing program, and worked with the GoN to provide the complementary grant funding for capacity building of LLDA, LGUs and River Councils (RCs). It also ensured that LLDA prepared a preliminary M&E system which was to be upgraded during implementation. Studies were proposed for more difficult and innovative interventions. EUFS were extended to households, creating infrastructure with private participation, effluent and water trading. Some of the work listed above helped provide a platform for the introduction of the desired measures (such as water abstraction pricing). The skill mix of the preparation team was adequate as recorded in the project appraisal document.

The results framework was adequate in terms of alignment of inputs, outputs, outcomes and the PDO. Base line values were appropriately included.

Four safeguard policies were triggered (OP 4.01, OP 4.36, OP 4.10 and OP 4.12) at appraisal. Compliance aspects were comprehensively addressed. In this regard, the team developed the Environmental and Social Safeguards Framework (ESSF) and disclosed it. ESSF integrated the environmental goals of the proposed project and the appropriate aspects of the World Bank and GoP policies into project planning and implementation. This included an explicit process for OP 4.01: Environmental Assessment and OP: 4.36 Forests, and Policy Frameworks for OD 4.20: Indigenous Peoples and OP 4.12: Involuntary Resettlement. Additionally, although not expected to be triggered by the project, contingencies are made in the sub-project planning and implementation process to ensure compliance with OP: 4.04 Natural Habitats, OP: 4.09 Pest Management and OPN: 1 1.03 Cultural Property.

The project at appraisal did not however: (a) plan for upstream actions to ensure multiple-LGU financing; (b) anticipate the weak participation of the low-income LGUs (low equity contribution and borrowing issues) and of the high income city LGUs (low grant share in funding and the relatively high interest rate on the loan) resulting from the application of the NG-LGU financing arrangement; and (c) factor in potential delays in land acquisition for sub-projects and compliance with environmental and social safeguards requirements. For example, land acquisition for the sub-project in the municipality of Cardona in Rizal province and MRF in Santa Maria were stalled.

IEG has judged that the shortcomings are minor against the adequacy of the preparation and has concluded the rating as moderately satisfactory.

Quality-at-Entry Rating: Moderately Satisfactory

b. Quality of supervision:

The project had an average of two support missions each year. The mission teams included technical, fiduciary and safeguards specialists. The missions reviewed aspects of project implementation, such as: (i) identifying key issues to resolve for expeditious progress; (ii) incorporating realistic mitigation actions for risks related to dispersed procurement emanating from varied capacity in a large number of LGUs that were included under the additional financing; (iii) reducing delays resulting from sub-project preparation studies, review and approval process (by LLDA and other agencies); (iv) examining the quality of contractor performance; and (v) ensuring compliance with safeguards aspects, among others. The Mid Term Review mission was carried out as planned and was instrumental in refocusing LLDA management to address bottlenecks in implementation. The team also identified the scope for an additional financing operation and it recommended cancellation of loan funds when an un-disbursed balance appeared likely.

The team failed to: (a) resolve the deficiencies of the M&E system and its implementation, despite repeated reminders and actions by LLDA, the system continued to be sketchy and provided only partial information towards the end of the project implementation period (ICR p.22); and (b) incorporate realistic mitigation actions for risks related to dispersed procurement emanating from varied capacity in a large number of LGUs under AF.

IEG has judged that shortcomings in the quality of Bank Supervision is moderate and concludes the rating is moderately satisfactory.

Quality of Supervision Rating: Moderately Satisfactory

Overall Bank Performance Rating: Moderately Satisfactory

9. Assessment of Borrower Performance:

a. Government Performance:

With the start of implementation, the commitment began to waiver. The project was not included in the 2005 approved General Appropriations Act (GAA) and during 2006, project implementation was fraught with the uncertainty that the 2006 GAA, which was to provide an allocation for approved sub-projects, would not be passed by Congress because of the differences between the House of Representatives and the Senate versions of the GAA. The release of the 2006 budget cover happened only as late as early 2007, allowing the second batch of seven sub-projects to proceed with the bidding and awarding of the contracts. LGUs were unable to bid out their sub-projects without assured financing even if these were technically ready. Further, there was uncertainty relating to the continued application of the NG-LGU financing scheme in 2011, which rendered the cost-sharing scheme unattractive due to the smaller grant portion provided to LGUs compared to that offered through other ODA-funded projects.

The last two extensions (totaling to nine months) of the closing date resulted from a delay in confirmation by the National Economic Development Authority of (NEDA) of the additional financing, and completion of the review by the Office of the President. Some LGUs were rendered ineligible as they were unable to secure a Certificate of Borrowing Capacity from the Bureau of Local Government Finance. These LGUs, were then required to obtain a Monetary Board Opinion to have loan tranches released under the project. This delayed implementation.

However, towards project closure, the government agreed to finance under the AF the five sub-projects that could not be completed by project closure.

IEG has judged that the shortcomings are significant as detailed above and concludes that the rating is moderately unsatisfactory.

Government Performance Rating | Moderately Unsatisfactory

b. Implementing Agency Performance:

The Laguna Lake Development Authority (LLDA) was the Implementing Agency (IA). It worked closely in collaboration with the Bank team to prepare the project. It addressed issues as they were identified by the Bank. In this process, it: (i) simplified the sub-project review and approval process (from a three-tier to a two-stage process); (ii) reduced the complexity in the process for providing environmental clearance; (iii) provided bridge financing for sub-projects while allocation from the Municipal Development Fund Office was awaited; (iv) procured contract supervision of consultants' services; and (v) supported LGUs with their procurement needs. It worked with the LGUs and RCs to secure their participation during the LEAP preparation process and implementation of sub-projects. It prepared the Borrower's Completion Report well ahead of project closing.

However, LLDA fell short of developing and implementing a project M&E system. The resulting ad hoc system provided virtually no or only partial information during most of the implementation period, making project management difficult. However according to the project task team leader:" Towards the end of the project, there was a dedicated team providing M&E support to the project. The indicators under Component 1 were well documented and reported. The indicators under Component 2 were more diverse and LLDA had initial difficulties in getting that part of the M&E working properly. Further, LLDA also established an on-line (internet based) system for permit applications and submission of self-monitoring reports. This system made it easier and more efficient to apply for the necessary permits from LLDA. Having this on line system facilitated the tracking of the industries around the Laguna Lake thatwere identified as possible generators of waste-water. Data were also more efficiently stored in a data base through this system".

IEG has judged that the shortcomings were moderate against the efforts by the implementing agency and concluded the rating as moderately satisfactory.

Implementing Agency Performance Rating : | Moderately Satisfactory

Overall Borrower Performance Rating : | Moderately Satisfactory

10. M&E Design, Implementation, & Utilization:

a. M&E Design:

The M&E framework highlighted inputs, outputs, and outcomes. It proposed to collect information at three levels: environmental sustainability of the watershed, LLDA organizational effectiveness, and stakeholder involvement. The preliminary M&E system established by LLDA was proposed to be upgraded during implementation. For the more difficult and innovative interventions, studies were proposed.

b. M&E Implementation:

M&E implementation was supported through the project funds under the Institutional Development component. The actual implementation of the M&E system was delayed and became fully operational in the seventh year of the project, after the MTR mission. It was noted that even as the comprehensive M&E system was being set up, LLDA consistently submitted reports twice a year and/or during review missions. These reports reflected the status of the original financing sub-projects as well as AF sub-projects (starting 2008), and discussions on mainstreamed institutional strengthening tasks of Component 2.

The last reporting year submissions included detailed discussions on the status of completed sub-projects under the original financing as well as the status of sub-projects under the additional financing. They also included substantive discussions on the status of the mainstreamed Component 2 (Institutional Development) tasks and programs, and provided updates to the key results indicators.

According to the task team leader, with regard to the studies related to difficult and innovative interventions, two studies were implemented. They were the BOD loading study and the Enhancement of the Environmental Users Fee (EUF). The first study on BOD loading assisted LLDA in obtaining qualitative figures on how much organic load (BOD) was flowing into the Lake. The EUF enhancement study demonstrated the feasibility of adding another parameter to the existing framework for EUF. The existing EUF used BOD and total Suspended Solids as the basis for calculating the EUF. An additional parameter such as Nutrient load was also assessed.

c. M&E Utilization:

The M&E report recommendations were used to resolve implementation issues.

Given the general nature of the information on M&E utilization, IEG has concluded the rating as modest.

M&E Quality Rating: Modest

11. Other Issues

a. Safeguards:

At appraisal, OP 4.01, OP 4.36, OP 4.12 and OP 4.10 were triggered. An Environmental and Social Safeguards Framework (ESSF) was developed and disclosed. The ESSF integrated the environmental goals of the proposed project and the appropriate aspects of the World Bank and GoP policies into project planning and implementation. This included an explicit process for OP 4.01: Environmental Assessment and OP: 4.36 Forests, and Policy Frameworks for OD 4.20: Indigenous Peoples and OP 4.12: Involuntary Resettlement. Additionally, although not expected to be triggered by the project, contingencies were made in the sub-project planning and implementation process to ensure compliance with OP: 4.04 Natural Habitats, OP: 4.09 Pest Management and OPN: 1 1.03 Cultural Property

Environment:

The Project was a Category B project and triggered safeguard policy OP 4.01 on Environmental Assessment. An Environment Management Plan (EMP) was completed for each sub-project. It identified environmental issues and proposed mitigating actions and indicators to assess compliance. Pre-construction clearances to begin work on a sub-project were obtained for all sub-projects, including getting the final clearance from LLDA. However, for the Paete Wastewater Facility, clearance was yet to be obtained for the shore-land development. Contractor compliance with EMPs during construction was monitored to ensure that actions required to mitigate construction related environmental impacts were taken in accordance with the LGU regulation for the project management units.

While all the sub-project types have significant beneficial environmental impacts (such as reduction in the volume of residual wastes brought to the sanitary landfill through segregation, recycling, reuse and composting; prevention and control of flooding; waste water discharge quality improvement; and reforestation), operational inadequacies were observed in some sub-projects, requiring remediation actions to be taken (Ref: Annex 2).

Social:

The project triggered 2 social safeguards (OP 4.12 and OP 4.10).

OP4.12: A majority of the sub-projects were constructed on land owned by the proponent LGUs. All land acquisition was done in consultation with, and after securing the consent of the affected land owners. Where required, land acquisition was effected through one or more of the following options: (i) outright purchase; (ii) lease arrangement for a period longer than sub-project life; (iii) land donation; (iv) usufruct arrangement, and (v) land exchange for transfer of ownership from the LGU to an Indigenous Peoples (IP) community (Tanay, Rizal). Where sub-projects required right of way, land donations and grants were the main choices.

There was a relocation and resettlement compliance requirement but only under one sub-project. The Rodriquez LGU had to relocate and resettle 397 families of illegal settlers from their ecotourism sub-project site. A detailed Resettlement Action Plan (RAP) was prepared by the LGU and most of the affected families were accommodated in the relocation site at Phase 1-D Kasiglahan Village, Barangay San Jose.

However, there were two pending cases: (i) an expropriation case filed for the Pangil material recovery facility with regard to sub-project road right of way; and (ii) relocation of a few families to Sitio Sapo resettlement site. The construction of this resettlement site was underway, led by the LGU in collaboration with the National Housing Authority for land development, and an NGO for social preparation and house construction.

OP4.10: Two sub-projects reported indigenous populations (IP). They were: (a) Tanay Microwatershed Enhancement Sub-project; and (b) Rodriguez Eco-tourism Sub-project. In both cases, Free and Prior Informed Consent (FPIC) of IPs was obtained in compliance with the Indigenous People Right Act (IPRA) of 1997.

In Tanay, the IPs participated in activities related to agroforestry, livelihoods development and reforestation. A Memorandum of Agreement (MOA) was executed between the indigenous cultural community of the Dumagat and Remontado tribes, the LGU of Tanay, the National Commission on Indigenous Peoples (NCIP), and the LLDA as per NCIP's FPIC Guidelines. The Remontado tribes of Tanay received ownership of 93 hectares land from the LGU for the area that was reforested by them as paid laborers. The LGU of Tanay received a Certification Precondition (CP) for their sub-project from NCIP.

In Rodriguez, though earlier consultations held by the LGU with the illegal settlers (considered as project affected persons) revealed that no IP communities or their ancestral domain would be affected by the sub-project, later on there was a claim that IP had a religious ritual site within the sub-project area. Follow up consultations were held in response to the IP claim and field-based investigations were carried out by NCIP in the sub-project area to validate the claim. Clearance for the Rodriguez LGU sub-project was then provided. The LGU then signed a revenue-sharing Memorandum of Agreement (MOA) with the IPs providing them 3 percent of the sub-project revenue.

b. Fiduciary Compliance:

Financial Management:

There were delays in the submission of liquidation reports by sub-project recipients and of interim and audited financial reports to the Bank as required by the Loan Agreement. Identified deficiencies were addressed by the implementing agencies and there was no indication of any substantial weakness in the control framework of the project.

From the dialogue with the task team, IEG also inferred that due to the delayed approval of the sub-projects, the implementation period was considerably reduced, resulting in risks of sub-projects not being completed on time, coupled with delay in disbursements. The overall financial management (FM) system, including all aspects of FM, such as FM personnel and organizational structure, accounting, budgeting, internal controls, auditing and financial reporting was operational with moderate support from the Bank.

Procurement:

In the Bank assessment, the procurement procedures followed were in compliance with the provisions of the Loan Agreement.

c. Unintended Impacts (positive or negative):

NONE

d. Other:

NONE

12. Ratings:	ICR	IEG Review	Reason for Disagreement/Comments
Outcome:	Moderately Satisfactory	Moderately Satisfactory	.
Risk to Development Outcome:	Significant	Significant	
Bank Performance:	Moderately Satisfactory	Moderately Satisfactory	
Borrower Performance:	Moderately Satisfactory	Moderately Satisfactory	
Quality of ICR:		Satisfactory	

NOTES:

- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

13. Lessons:

***Strategic assessment of proposed sub-projects in relation to the capacity of the implementing agencies, to prepare, implement and maintain is critical*.** Upfront differentiation of the type of sub-project is critical. For instance the sub-projects that are market based and/or contribute to environment enhancement are best left to the private sector, particularly in the absence of management capacity and resources at the local public sector implementing agency level (such as the local government unit (LGU) in the subject project). Without a proper modus operandi for operation and maintenance, sustainability of sub-projects is at risk.

***Identify solid waste/garbage landfill capacity as part of project preparation*.** Sanitary landfill facilities are often a gap in environmental management infrastructure. Although local government units may have set up materials recovery facilities and composting facilities, they typically do not have adequate capacity in sanitary landfills for their residual (unrecyclable) wastes. This results in a mismatch between solid waste collection, treatment and disposal requirements, and is likely to undermine investment in upstream facilities

Improve monitoring and evaluation designs so that analysis indicated in the project appraisal document (PAD) can be replicated at completion. M&E design presented in the project appraisal document should allow for comparability of analyses at completion. When the Bank develops complex models for monitoring and evaluation at appraisal stage, they will often require revamping during the mid-term review.

14. Assessment Recommended? ○ Yes ● No

15. Comments on Quality of ICR:

The ICR is concise and consistent with OPCS guidelines. It provides an evidence based summary of project preparation and implementation. Quality of analysis is sound, except in demonstrating fiduciary and procurement compliance. Lessons are also evidenced based and derived from project experience. Results are appropriately captured, though there are some instances where re-reading and discussions with the task team leader were required. Stakeholders are well defined and poverty, gender and social issues are adequately reported. Compliance with the Bank safeguard policies are reported with evidence. Annex #7 provides a Borrower ICR.

In some sections, the reporting of the ICR is not consistent with the heading of the section. For instance: (i) Section 10 (c) of the ICR reports on implementation rather than how M&E reports were utilized; and (ii) Section 3 (b) of the ICR focuses on requirements for scaling up rather than on the relevance of design. The ICR also overlooks definition of acronyms such as COD.

a.Quality of ICR Rating: Satisfactory