

Cost Recovery and “Ring Fencing” of Special Accounts: Promoting Sustainability in Solid Waste Management for Local Governments

Philippine Environmental Governance Project (funded by USAID)

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Solid waste management (SWM) is a mandate of local government units (LGUs) in the Philippines as provided by the Local Government Code or Republic Act 7160 and the Ecological Solid Waste Management Act of 2000 (RA 9003). However, it is generally perceived as a government service thus is considered an expense item by the LGUs. With RA 9003 enforcement, many LGUs are faced with the challenge of sustaining these services given the high infrastructure and support costs and limited availability of financing.

The Philippine Environmental Governance Project (EcoGov) has been providing technical assistance to its partner LGUs to integrate SWM with the overall municipal/city planning and development processes. As part of these efforts, cost recovery studies were conducted with selected LGUs. The main objective of these studies was to determine how the LGU can generate internal revenue for SWM to sustain its operations. Specifically, this involves determining the actual SWM expenses and identifying measures where the LGU can recover its expenses or expand its revenue base in SWM. The activities included a) cost and revenue analysis as basis for cost recovery and streamlining of SWM operations; b) action planning to address revenue collection efficiency and high subsidy levels; c) formulation of financial management guidelines; d) ordinance formulation and enforcement; e) opening a separate account for SWM; f) formulation of cost recovery plan; and g) regular review of operations.

One strategy that was introduced by EcoGov is “ring fencing” which provides a separate account solely for SWM to track income from the said services and keep the resources earmarked exclusively to the service. This is done by plowing back generated revenue to SWM activities. Ring fencing of an SWM fund allows implementers to a) monitor performance and do proper budgeting and planning; b) spend funds more wisely; c) review reliable time series data to determine year on year subsidy levels and for validating existing tariff rates; d) keep the municipal /city SWM team focused on their performance targets; and e) strengthen financial management processes through increased revenues and controlled expenses.



Ring fencing of special accounts results in increased income from SWM activities and enforcement of local ordinances and leads to decreased LGU subsidy as illustrated in the cases of Jagna, Bohol and Dauin, Negros Oriental both in the Philippines. SWM has an economic enterprise potential as long as the quality of service is maintained so that the people are willing to pay for the service. This requires political will of local leaders and commitment of implementers. This model is being promoted on an experimental basis and holds hope for the future. If successful, efforts to scale this up and promote as a best practice among local governments, will have wider benefits.