

SUBPROJECT ELIGIBILITY CRITERIA AND SELECTION PROCEDURE

A. Subproject Eligibility Criteria

1. The project will be implemented as a sector loan under ADB's Operation Manual Section D3 – Sector Lending.¹ The sector lending approach allows the Government of Cook Islands to take the lead in identifying, prioritizing, appraising, designing, and implementing subprojects. The implementing agencies for the project, the government of the Cook Islands will propose on behalf of the government, solar photovoltaic power plant systems for Rarotonga, Aitutaki, and Atiu (noncore subprojects) for approval by ADB. The approval of noncore subprojects will be based on satisfactory technical, economic, social, and environmental assessments compliance with eligibility criteria agreed on between the government and ADB.

2. Three core subprojects for solar photovoltaic power plant systems in Mangaia, Mauke, and Mitiaro have been prepared and met the eligibility criteria. Initial noncore subproject feasibility studies have been prepared for Aitutaki, Atiu, and Rarotonga. Finalization of due diligence for technical feasibility, economic and financial analysis, environmental and social safeguards will be prepared during project implementation.

3. **Selection Criteria.** The selection of subprojects will be guided by the Cook Islands Renewable Energy Chart Implementation Plan (CIRECIP).² Stakeholder consultations will be undertaken to investigate eligibility of subprojects for financing under the project according to the criteria available in the linked documents of the Report and Recommendation of the President. These include:

- (i) **Access to renewable energy.** Subprojects shall confirm contribution to CIRECIP implementation and must be in line with the government priority. Choice of renewable technology is solar photovoltaic power and (or) its associated grid stabilization facilities such as secondary battery to control frequency and voltage fluctuation.
- (ii) **Technical viability.** Subproject shall demonstrate technical viability with solar irradiation resource assessment, electricity yield forecasting, electricity load demand forecasting, geological and topological assessment, capital and operation and maintenance costs estimates, layout design, and grid integration simulation.
- (iii) **Economic efficiency.** The subprojects must be economically viable and shall have demonstrated an economic internal rate of return (EIRR) equal to or greater than 12%, or with EIRR of not less than 10% for subprojects with significant unquantifiable benefits. An economic analysis shall have been conducted in accordance with ADB's Guidelines for the Economic Analysis of Projects (1997, as amended from time to time). Each subproject will be assessed for its contribution to: (a) savings in diesel use and associated costs including freight, (b) savings in transmission losses, and (c) savings in reduced CO₂ emissions;
- (iv) **Financial viability.** The financial rate of return shall be greater than weighted average cost of capital, and must be robust under various adverse conditions;

¹ Available at <http://www.adb.org/documents/operations-manual>.

² Government of Cook Islands. 2012. *Cook Islands Renewable Energy Chart Implementation Plan*. Rarotonga.

and; the subproject investment cost, operation and maintenance cost, and cash inflows must be clearly presented and reasonable. The electricity tariff to be applied shall be set based upon levelized cost of electricity in principal and applicable laws and regulations to ensure financial sustainability of the subproject.

- (v) **Environmental Impact.** Subproject environmental selection criteria will exclude subprojects that are likely to cause major environmental impacts (environmental category A), according to ADB's Safeguard Policy Statement (SPS, 2009).³ Environmental screening will be conducted for all subprojects. In selecting subproject sites, the following environmental criteria will be used for the first level of screening. If the site does not meet any of the criteria, then the subproject will not be approved as part of the project. Subprojects approved for funding under the project must not: (a) be classified as category A in accordance with ADB's SPS; (b) result in significant loss of, or damage to, natural environments, such as forests, reefs, mangroves, or other sensitive areas; (c) have a permanent negative effect on a known or endangered species; or (d) cause permanent damage to irreplaceable cultural relics and archaeological sites;
- (vi) **Land acquisition and resettlement.** No subproject that requires land acquisition with significant resettlement impact, according to ADB's SPS, will be eligible for funding under the project. The inclusion of a candidate subproject for project financing is contingent on compliance with agreed eligibility criteria. To minimize land acquisition and its impacts, the criteria are as follows: (a) the subproject is designed to minimize land acquisition including reduction of geometric standards where needed to avoid significant impacts, (b) the inclusion of the subproject has local support, (c) the proposed works minimize the displacement of residential structures or other permanent structures, (d) there is negotiated agreement with affected owners and communities for acquisition of land, and (e) there is no other significant adverse environmental or social impact; and
- (vii) **Counterpart funds.** The Ministry of Finance and Economic Management (MFEM) will confirm that funds and resources necessary for the installation, operation, and maintenance of each subproject are provided on time.

4. The ADB loan will also finance the costs of the consulting services to assist Renewable Energy Development Division (REDD) and Te Aponga Uira (TAU) for preparation of noncore subprojects, preparation of bidding documents; assistance during the bidding process; project supervision; and commissioning for core and noncore subprojects.

B. Subproject Selection Procedure

5. For noncore subprojects, the Project Owner's Engineers (POE) will conduct stakeholder consultations in cooperation with REDD and TAU, report the results, and propose subprojects for appraisal to REDD and TAU, respectively. The Office of the Energy Commissioner (OEC) will endorse candidate subprojects for appraisal.

6. After the endorsement of candidate subprojects, the POE will undertake the required appraisal to justify subproject eligibility. Appraisal will involve collecting and analyzing baseline

³ Available at: <http://www.adb.org/Documents/Policies/Safeguards/Safeguard-Policy-Statement-June2009.pdf>.

data to assess feasibility and expected impact, using methods and tools established for the sample subprojects. Each subproject appraisal will cover (i) a technical feasibility study, (ii) an economic analysis in accordance with ADB's Guidelines on the Economic Analysis of Projects, (iii) a financial analysis, (iv) a social and poverty analysis in accordance with the method and procedure used in the sample subproject feasibility study, (v) an initial environmental examination and environmental management plan in accordance with the environmental assessment and review framework (included in the linked documents), and (vi) resettlement plan in accordance with land acquisition and resettlement framework (included in the linked documents). Each component of the assessment will confirm acceptable ratings against the criteria, or recommend further works to complete the assessment.

7. OEC will review the appraisal report and endorse the subproject that meets all the eligibility criteria. The subproject appraisal report endorsed by the OEC will then be submitted to MFEM for final endorsement before submitting to ADB for approval. ADB will review the appraisal report and, if necessary, may request additional materials and studies to justify the subproject. ADB's formal approval for projects (other than those in para. 5) must be obtained before the tender document preparation for any subproject, and its inclusion for financing under the project. Upon receiving ADB approval, the POE will commence tender document preparation.

8. OEC and MFEM will be responsible for obtaining approval of the higher authorities of government for inclusion of any subproject in the national budget and for ensuring that counterpart funds are available.