

**PROJECT INFORMATION DOCUMENT (PID)  
CONCEPT STAGE**

Report No.: AB4216

<b>Project Name</b>	Additional Financing for Rural Power
<b>Region</b>	EAST ASIA AND PACIFIC
<b>Sector</b>	Renewable energy (50%); Power (50%)
<b>Project ID</b>	P113159
<b>Borrower(s)</b>	REPUBLIC OF THE PHILIPPINES
<b>Implementing Agency</b>	Development Bank of the Philippines
<b>Environment Category</b>	<input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input checked="" type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
<b>Date PID Prepared</b>	October 7, 2008
<b>Estimated Date of Appraisal Authorization</b>	November 4, 2008
<b>Estimated Date of Board Approval</b>	December 16, 2008

### 1. Key Development Issues and Rationale for Bank Involvement

Power distribution in the rural areas is largely the responsibility of 119 electric cooperatives (ECs) in the Philippines. There is a great diversity of performance among individual ECs; weak management and inefficiencies at many ECs are commonly perceived to be related, in part, to political interference, weak governance, and lack of accountability. In recent years, significant progress has been made to improve the performance of ECs, but much more needs to be done.

ECs are also affected by lack of access to commercial lending and high level of electricity losses. On the generation side, almost one half of the country's generating capacity depends on imported fuels and thus is subject to price volatility. The development of indigenous and renewable energy help to cushion the effects of unpredictable oil price increases. These are also consistent with the government's Medium Term Philippines Development Plan which focuses on energy independence. Thus, this project is intended to tackle both supply and demand related issues, that is, making ECs and private generators in rural areas less vulnerable to fuel price volatility and improving their energy and operational efficiency.

Investments in distribution including the purchase and rehabilitation of sub-transmission assets would not only lead to loss reduction and hence reduce the need to invest in additional generating capacity, these would also enable ECs to coordinate their operational activities to achieve other significant cost savings to their consumers.

### 2. Proposed Objective(s)

The Project Development Objectives (PDOs), specifically of APL 1, are (i) to test and demonstrate viable business models that maximize leverage of public resources with private investment for decentralized electrification; (ii) to support transformation of electric cooperatives (ECs) through institutional and operational improvements; and (iii) avoid CO<sub>2</sub> emission through wider use of renewable energy. There are no changes in the PDOs since the additional financing would fund similar activities as the original Rural Power Project (RPP).

The proposed additional financing project seeks to scale up the APL1. It further aims to support rural electrification by targeting more households (HHs) and barangays, encouraging more private sector participation (PSP) by sharing in investment risks in generating, transmitting, and distributing electricity with emphasis on new and renewable sources of energy, and upgrading ECs to become financially viable and operationally efficient. The outcomes of the Additional Financing would be gauged on the basis of the following Key Performance Indicators (KPIs): (i) successful approval and implementation of the pipeline projects; (ii) support for EC transformation — to become financially stable, operationally efficient, and institutionally improved; (iv) prevention of at least 20,000 tons of CO<sub>2</sub> emissions; and (v) direct access to electricity through mini-grid electrical connection or individual renewable energy technology (RET) services to 10,000 new customers in rural areas.

### 3. Preliminary Description

Under the APL1 project, support for priority investments focus on two broad subsectors: (a) EC grid subcomponent which aims to transform ECs into competitive, efficient and financially viable organizations; and (b) decentralized electrification subcomponents including small scale energy generation, mini-grids and stand alone Renewable Energy Technologies (RETs). The overall design behind the APL allows for maximum flexibility in the use of loan funds to support and scale-up quick wins.

Demand for funds under APL 1 has been very high as manifested by loan applications which have been soaring since the beginning of 2007. DBP reported that by end of the third quarter of 2007, APL1 with an allocated financing of US\$10 million has been fully committed. Loan disbursements as of June, 2008, stand at 89 percent of available funds. APL 1 is expected to be fully availed by December 2008 or a full one year ahead of schedule, hence the need for additional funds.

Consequently, it is proposed an additional financing of US\$40 million to scale-up priority investments on the two broad subsectors as indicated below.

#### Indicative Financing Plan (In US\$ Million)

Category	Indicative Total		GEF Grant	GEF - PPF	Co-financing Subproject	Total
	Value	%				
<b>Investment Component</b>						
- Small scale power generation and/or mini-grid (new and renewable energy)	27	68%	0.239	0.366	6.68	34.285
- EC transformation	13	32%			1.78	14.780
<b>Total Investment</b>	40	<b>100%</b>	0.239	0.366	8.460	49.065

Note: Pipeline projects exceeded the amount of US\$40 million — priority will be given to fast moving accounts. Minimum 10 percent equity for private enterprises doing NRE projects. 10 percent equity participation of LGUs and ECs.

#### **4. Safeguard Policies that Might Apply**

There are no modified, expanded or new activities that have any safeguard implications under the additional financing hence no new safeguard policies shall be triggered. Nevertheless, subprojects need to comply with the Environmental and Social Safeguards. The EMP has been established to provide a framework for a comprehensive monitoring and evaluation of the potential environmental impacts of the relevant subprojects throughout their entire project cycle.

With an ISO 140001 certification, DBP not only promotes economic development but also ensures environmental protection and preservation by integrating environmental considerations in all aspects of its operation. Prior to sub-loan approvals, the Program Development Unit of DBP prepares Project Evaluation and Environmental Report (PEER) for endorsement to the Lending Units. It is a document that discusses and evaluates the technical and environmental aspects of the proposed subproject being applied for funding. PEER also serves as a tool that determines whether a project is technically feasible. It carefully evaluates a subproject's sustainability, relevance, efficiency, effectiveness, reasonableness of cost, and developmental impact.

Furthermore, subprojects have to secure an Environmental Clearance Certificate (ECC) from the Department of Environment and Natural Resources (DENR), which is a primary requirement in all loan applications. The PEER officially declares and endorses that the subproject conforms to the environmental standards set by the DENR.

#### **5. Tentative financing**

Source:		(\$m.)
Borrower		0
International Bank for Reconstruction and Development		40
	Total	40

#### **6. Contact point**

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