

PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

Report No.: AB4479

Project Name	Additional Financing for Rural Power
Region	EAST ASIA AND PACIFIC
Sector	Renewable energy (50%); Power (50%)
Project ID	P113159
Borrower(s)	REPUBLIC OF THE PHILIPPINES
Implementing Agency	Development Bank of the Philippines
Environment Category	<input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input checked="" type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
Date PID Prepared	January 26, 2009
Date of Appraisal Authorization	December 11, 2008
Date of Board Approval	March 10, 2009

1. Country and Sector Background

Power distribution in the rural areas is largely the responsibility of 119 electric cooperatives (ECs) in the Philippines. 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.

Further 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. Objectives

The Project Development Objectives (PDOs), specifically of APL1, 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 CO₂ 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 CO₂ 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. Rationale for Bank Involvement

There is strong evidence that access to modern energy services (particularly electricity) has positive impact on the lives of the people, demonstrated through its beneficial impacts on health, education, productivity, and general well being of the people. These objectives are consistent with the Country Assistance Strategy of the Republic of the Philippines and the broader goals of reducing poverty.

4. 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).

Demand for funds under APL1 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, hence the need for additional funds until.

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	
	Value	%			Subproject	Total
Investment Component						
- 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
Total Investment	40	100%	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.

5. Financing

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

6. Implementation

As in the ongoing APL1, the Development Bank of the Philippines (DBP) will be the implementing agency of the Additional Financing Project, the appraisal activities applicable to the proposed project included: (i) an updated capacity procurement assessment of the borrower (DBP) and implementing agencies. The assessment confirmed that based on its satisfactory track record under APL1, and systems in place, DBP has adequate capacity to oversee and supervise the procurement implementation of the project; (ii) an updated environmental and social aspects of proposed project pipeline; and (iii) financial management aspects. Given the programmatic approach of the project, the technical aspects of the proposed pipeline are similar to those under active supervision in APL1.

7. Sustainability

The additional financing will enable DBP, and the sector, to further expand the public-private partnership in the provision of access to energy in off-grid areas. This is consistent with the government policies as stated in the Sector Policy letter. The additional resources will also strengthen the social economic and poverty alleviation impact by targeting 10,000 new customers in the poor rural areas. Their access to electricity is expected to substantially improve the quality of life of the beneficiaries and promote rural economic development in the project areas.

8. Lessons Learned from Past Operations in the Country/Sector

The Additional Financing Project builds up on the success of the APL1. The original US\$10 million financing approved for APL1 has been fully committed, with 92 percent disbursed as of September 2008. As a result of the increasing number of loan applications, along with the buoyancy of investment opportunities, APL1 is expected to be fully availed by December 2008, a full one year ahead of schedule; hence the need for additional funds. The additional financing will scale-up a pipeline of sub-projects identified during implementation of the APL1.

9. Safeguard Policies (including public consultation)

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.

10. List of Factual Technical Documents

- a. Feasibility Studies: San Jose Biomass Project;
- b. Zambo. Del Sur Hydro Project;
- c. Procurement Capacity Assessment (PCA);
- d. RPP/APL, Quarterly Reports (October 2008);
- e. Financial Quarterly Reports; and
- f. DBP 2007 Financial Statement.

11. Contact point

Contact: Arturo S. Rivera
Title: Sr. Energy Specialist
Tel: (202) 473-1131
Fax: (202) 522-3573
Email: Arivera2@worldbank.org

12. For more information contact:

The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Email: pic@worldbank.org
Web: <http://www.worldbank.org/infoshop>