

November 15, 2011

Approval by mail: Project Preparation Grant for Philippines Renewable Energy Development

THE WORLD BANK
OFFICE MEMORANDUM

DATE: November 8, 2011

TO: Gevorg Sargsyan, Program Coordinator, Clean Technology Fund

FROM: Alan Townsend, Sr. Energy Specialist, EASIN

EXTENSION: 38654

SUBJECT: Responses to comments from Germany on the application for CTF project preparation funds

- 1. In the last few years the government of the Philippines has set ambitious targets for the diffusion of renewable energy technologies and elaborated a comprehensive renewable energy strategy consisting of several framework policies. However none of the announced policies of the Renewable Energy Act of 2008, such as the Feed-in-Tariff have been implemented yet.**

A wide range of policy and regulatory work is being done on feed-in tariffs, renewable portfolio standards, renewable energy certificates, and related items, and implementation of the framework for renewable energy investment is now in isght. We will be following this closely and, as mentioned in the proposal, the Bank, through trust funds, is providing technical assistance on many of the critical pieces. For this reason, it is not anticipated that preparation grant proceeds will need to be spent on policy and regulatory support; rather, the critical need is for assistance with program design, with the major focus being on how to use the CTF funds for maximum impact. While implementation of the RE Act 2008 remains a work-in-progress, things have accelerated under the new government, and given the range of work underway now, and the demonstrable progress (in documentation, public consultation, etc.), there is now more confidence over an investment framework being mostly in place in the first half of 2012.

The following technical assistance pieces are being done now and supported by, variously, ADB, World Bank, AusAID, ESMAP, GPOPBA, PPIAF, Korea, JICA and USAID:

- Renewables maximum penetration
- Renewable Energy Market design
- Renewable Energy Certificates and Registry
- Renewable Portfolio Standards
- Feed-in Tariffs
- Support to ERC
- Output-based Aid for Solar Home Systems
- Electric cooperative credit risk rating system

- Best practice in utility loss reduction/energy efficiency
- Various work on natural gas/LNG (includes analysis of challenges of integrating large amounts of renewables on the electricity network)

2. In ToR Component (a), para 3. a. and b., (developing eligibility criteria and building project pipeline), CTF investment criteria should explicitly be accounted for.

CTF investment criteria will be a major focus of the work, especially related to renewable energy program design. The goal will be to develop a structured mechanism so that on a project-by-project basis, the minimum amount of CTF necessary will be used (thereby achieving the maximum leveraging effect). In terms of energy efficiency and investment support to the electric cooperative sector, the program design objective will concentrate on how to achieve the maximum leverage of CTF funds at the programmatic level (since the basic concept is to use CTF to scale up the guarantee capacity of the Electric Cooperative Partial Credit Guarantee program). The TOR will reflect this comment.

3. Evaluation will be carried out by the interim and final reports, but no additional information is provided on the explicit indicators regarding monitoring and evaluation. Relevant indicators, which e.g. monitor the leverage effects ought to be included in the project preparation grant.

Monitoring and Evaluation provisions will of course be a key component of the Bank PAD, and we will ensure that, as appropriate, some advice is provided by consultants that are funded by this preparation grant.

4. CTF support should also include the support for the RE Act 2008 implementation which is considered an important framework condition for the grid integration of renewable energies by German Development Cooperation. Also, it is not comprehensible why the component regarding the implementation of the RE Act 2008 is included in the application for CTF project preparation grant, although CTF support during project preparation is not sought for this component.

Policy and regulatory support during the implementation phase of the project – we will discuss with the authorities the modalities for policy support. If CTF for technical assistance in this area is needed and requested by Government, it will be included. As of right now, as mentioned, the Bank and other donors are providing support in key areas and the preparation grant funds are not directly needed for this purpose. However, in the longer term there are uncertainties about the availability of technical assistance funds; this issue will be addressed during the course of project preparation.

- 5. ToR Component (a), para 2. DBP Institutional Review: It is not quite clear whether the Consultant's task is merely the analysis of DBP's capacities in the listed areas, or whether DBP is to be trained in these areas as part of the assignment. In the latter case, the amount of approx. 50,000 USD for training measures (for both components) seems modest.**

It is not anticipated that formal training will be a major focus of the preparation activities. If more training/capacity building at DBP is needed over the course of project implementation, it will be funded either with technical assistance financed by CTF/IBRD, or with trust funds. The TOR will be clarified on that point.

- 6. ToR Component (a), para 3. d.: Wherever Consultants are to be tasked with preparing / developing loan documentation for IBRD, it should be asked whether CTF grant funds are really necessary and earmarked for financing these tasks. These tasks would have to be carried out and financed by IBRD with or without CTF co-financing for the investment project.**

Consultants will not be preparing nor developing loan documentation for IBRD. It is anticipated that technical work on program design will provide inputs to the Bank's loan documentation and to the project documentation required by the implementing agencies for their Government approvals. The normal work to be done by the staff at the World Bank and DBP does not change. The intent of the TOR item is merely to highlight that, for example, technical work of the consultants will be adapted as annexes to the PAD, and to reinforce the point that consultants are being hired for detailed program design aspects for programs that will be financed by DBP and IBRD/CTF.

- 7. ToR Component (b) are slender and do not detail the tasks of the consultants. Cost of Component (b) consultancy is nearly as high as for Component (a). Cost adequacy cannot be assessed based on the attached Component (b) ToR.**

The terms of reference will be fleshed out. What is already included in the TOR does imply a high level of effort, as working in the EC sector is always challenging given that there are 119 ECs.

- 8. Component (c): A major part of the tasks of this consultant is assistance with all aspects of writing and assembling bank loan documentation. It could be questioned whether this is to be financed from CTF grant funds (compare comment above). Cost for this component amounts to about one third of the respective cost of the other two components.**

Consultancy work is needed that balances the objectives of CTF, Government, IBRD, NEA, LGUGC, DBP, DOE, DOF, ERC, and other stakeholders like IFC and the private sector. The key role of the individual consultant is to essentially work close to full-time over many months to ensure that the work is firmly focused on this common space. One of the tangible outputs of this is indeed a contribution to the Bank's loan documentation, but the full range of work includes support key coordination and quality control tasks. This consultancy was

identified to specifically mitigate the risk that various work streams would suffer from a lack of coordination. Realistically, while core Bank staff be primarily responsible for all this (as is normal), it will be essential to reinforce the structure around project preparation as much as possible so things stay well coordinated --- and reasonably on-track, timewise.

Annex – Comments from Germany as received

Comments on CTF PPTA Grant Proposal “Philippines Renewable Energy Development”

<u>Financial Volume:</u>	1m. USD Grant for project preparation
<u>Purpose of the PPTA:</u>	The project preparation technical assistance (PPTA) serves to prepare the implementation of the two energy sector components of the IBRD financed part of the Philippine CTF Investment Plan (IP) in the areas of distributed renewable energy utilisation and demand side energy efficiency.

We welcome the proposal and have no general objections to the proposed project preparation technical assistance grant. The CTF project preparation grant is in line with the objectives of the CTF, specifically, as it will possibly lead to improvement of the DBP, Philippines credit markets, and the on-lending design will improve private sector investments in the according technology. There is a strong indication for further leverage effects. We do have a number of comments / questions as detailed below.

Assessment of the Proposal

Preliminary remarks: In the last few years the government of the Philippines has set ambitious targets for the diffusion of renewable energy technologies and elaborated a comprehensive renewable energy strategy consisting of several framework policies. However none of the announced policies of the Renewable Energy Act of 2008, such as the Feed-in-Tariff have been implemented yet.

Summary of ToR:

Underlying investment project: In the investment plan, IBRD/CTF financing in the energy sector¹ is foreseen in the following areas:

- a) (RE) Accelerate deployment of renewable energy as an established form of distributed generation at sufficient scale in the country to encourage new investments.
- b) (EE) Institutionally transform electric cooperatives and improvements in their operations, including demand-side management, smart metering technology, and the managerial capacity necessary to compete after full realization of EPIRA, so that the off-taker risk is mitigated for potential RE investors.

This shall be achieved by addressing long-term credit access and credit enhancement facilities in small and medium-size projects, focusing on private developers and on electric cooperatives that have limited access to commercial financing. IFC/CTF funds will be directed toward the provision of risk sharing capital in partnership with local

¹ Additionally, IBRD is foreseen for co-financing an urban transport programme (bus rapid transit system).

commercial banks for medium-size to large projects in the renewable and energy efficiency arena.

PPTA Terms of Reference:

The proposal names three critical areas of work to be covered for project preparation:

- (1) RE Act 2008 implementation support;
- (2) matters related to DBP, Philippines credit markets, and on-lending design; and
- (3) matters related to electric cooperatives and NEA, including governance and institutional strengthening issues, credit risk aspects, and options for expansion of the guarantee program.

Since item (1) is covered extensively by a variety of on-going, mostly IBRD-financed and -handled studies, only items (2) and (3) are to be covered by the CTF grant financed PPTA.

Consequently, the proposed PPTA is split in three components:

- a) (RE) Program design for support of renewable energy generation. (Credit market assessment and on-lending design, referring to item (2) above.) [416.000 USD]
- b) (EE) Design the overall structure of support to the electric cooperatives. (referring to item (3) above.) [398.000 USD]
- c) Project preparation assistant to assist with ensuring that the results of the technical work are aligned with the project approval processes of the Government and with the loan approval process of the Bank. [134.000 USD]

52.000 USD extra for workshops and miscellaneous expenses.

Detailed comments on ToR:

- The proposed PPTA in content and scope seems to be generally in line with the Guidelines for the approval and management of CTF preparation grants.
- The scope of the PPTA is in line with the investments targeted in the IP for IBRD co-financing in the energy sector. The PPTA does not cover the urban transportation programme also proposed for IBRD co-financing in the IP. This is plausible, since the transportation programme is a separate intervention under the IP and is to be seen mostly disconnected from the energy sector interventions.
- In ToR Component (a), para 3. a. and b., (developing eligibility criteria and building project pipeline), CTF investment criteria should explicitly be accounted for.
- Evaluation will be carried out by the interim and final reports, but no additional information is provided on the explicit indicators regarding monitoring and evaluation. Relevant indicators, which e.g. monitor the leverage effects ought to be included in the project preparation grant.

- CTF support should also include the support for the RE Act 2008 implementation which is considered an important framework condition for the grid integration of renewable energies by German Development Cooperation.
- It is not comprehensible why the component regarding the implementation of the RE Act 2008 is included in the application for CTF project preparation grant, although CTF support during project preparation is not sought for this component.
- ToR Component (a), para 2. DBP Institutional Review: It is not quite clear whether the Consultant's task is merely the analysis of DBP's capacities in the listed areas, or whether DBP is to be trained in these areas as part of the assignment. In the latter case, the amount of approx. 50,000 USD for training measures (for both components) seems modest.
- ToR Component (a), para 3. d.: Wherever Consultants are to be tasked with preparing / developing loan documentation for IBRD, it should be asked whether CTF grant funds are really necessary and earmarked for financing these tasks. These tasks would have to be carried out and financed by IBRD with or without CTF co-financing for the investment project.
- ToR Component (b) are slender and do not detail the tasks of the consultants. Cost of Component (b) consultancy is nearly as high as for Component (a). Cost adequacy cannot be assessed based on the attached Component (b) ToR.
- Component (c): A major part of the tasks of this consultant is assistance with all aspects of writing and assembling bank loan documentation. It could be questioned whether this is to be financed from CTF grant funds (compare comment above). Cost for this component amounts to about one third of the respective cost of the other two components.