

September 13, 2010

**Comments from Germany including IFC's Philippines: Renewable Energy Accelerator Program (see attachment):**

Dear Patricia,

thank you very much for the 7 project proposals we received. Please find below comments/questions for all of them. In addition we also provide more detailed comments/questions for 5 of them (all South African ones, Turkey and Philippines) as attachment.

1. TurSEFF Extension

We are happy to support the extension for the original project (the status quo about allocations seems to be outdated, though).

2. Philippines Renewable Energy Accelerator Programm

In principle we very much welcome this programm proposal as it seems well balanced and adequately adapted to the sectoral situation in the Philippines. We do have concerns however about the relative vagueness of a number of important issues (s. attachement). Given that a more detailed regulatory framework is expected in the next couple of weeks, which would provide a much better basis for specifying the necessary support measures, we suggest that the proposal is resubmitted after sufficient information has been obtained. We do realize the time constraints, but would like to point out that we only expect a short delay, which would much improve the quality of the proposal.

3. Vietnam Sustainable Energy Finance Programm

We noted that the original focus of the programm on small scale RE seems to have been changed to demand oriented EE of SME. As explained in our comments on the supplemental note we had serious concerns about the viability of this previous priority as a lack of donor financing does not seem to be the bottle neck, but rather the quality of project proposals, the experience of investors etc. Could you please confirm our impression about the change of priorities and explain whether you still intend to finance small-scale RE, possibly under which conditions and advisory services, and to which extent in relation to the scale up of energy efficient and cleaner production investments.

4. Thailand Sustainable Energy Finance Program

We are in principle prepared to approve the programm, but would like to seek clarification on a number of points before we do so:

- we find that in order to approve it we should be given some criteria for on-lending. There is very little in the proposal.
- also, it would be helpful to get some more information about prospective partners. Given the fact that some of this information might be classified as confidential, we suggest to expedite the signature of the pending Non-Disclosure Agreement. You would then be in a position to forward this additional information to interested donors.
- with regard to your analysis, there is a lack of appropriate financing mechanisms for small projects and SME's. On this background and given the rather small overall budget, we would like to suggest that on-lending should be better adapted to the analysis, i.a. the lower and upper limits for individual loans should be reduced. Then it would be possible to reach out to more and smaller projects and clients - despite

the fact that it would increase the transaction costs and possible interest rates.

- Pricing/CTF Terms: we wondered why the mezzanine debt loan would be structured similarly to the senior debt loan. We also wondered why the risk share facility would cover up to 80% of the first loss, whether 50% might not be sufficient.

- considering that the political situation seems to have stabilized we agree with your risk assessment, but would still ask you to give more specific information on the impact of the political tensions on the targeted sector and partners.

#### 5. South Africa

We do very much welcome the CTF engagement in South Africa and support its overall approach especially considering the urgent need to enlarge the sub sectors of RE and EE.

Nonetheless, we have grave concerns with the proposed approaches.

There are three cross-cutting issues we would like to raise with you:

- All the project proposals are extremely vague. They neither give details concerning partners nor projects. Again,

the NDA might be a

vehicle for you to transport this sort of information, but we are somewhat hesitant to actually agree that this information should be considered classified in the South African country context at all.

- Energy is a focal area for German development cooperation in South Africa, more bilateral partners such as France, Danida and others are also active in this sector. None of the proposals gives any indication whether donor coordination was even considered (apart from a small mention of AFD's support). Any support from CTF sources would necessarily have to be harmonised with other donors' programs, a division of labour needs to be well-thought through, and all this ideally on the ground under the leadership of GoSA.

- These project proposals by 2 implementing MDB's compound the problem of additional administrative costs. Especially the rather small project for the Energy Efficiency Program does not warrant such a large administrative budget.

In addition we have also sector specific comments, see attachments. I would like to high light in particular the Sustainable Energy Acceleration Program, which might reduce the current pressure on the government to quickly implement the FIT. From our perspective it is now necessary to support measures such as TA for the implementation, a new financing mechanism might prove to be counterproductive at this time.

Overall, we come to the conclusion that the South African proposals are currently not in a form to be approved.

Thank you very much for your consideration,  
Annette

**Attachment :**

### **Comments on CTF Private Sector Proposal “Philippines Renewable Energy Accelerator Program (REAP)”**

**Financial Volume**

Investment – up to US\$19 million equivalent  
Advisory services grant component – US\$500,000  
Implementation and supervision budget - US\$500,000

**Purpose of the project** Facilitation of transformation of the private renewable energy sector by establishing a series of direct project level interventions in the wind, biomass and solar sectors.

**A General Comments on the Project – Relation to the sectoral and regional Context**

The IFC's initiative "Philippines Renewable Energy Accelerator Program (REAP)" seems to be appropriately balanced in general. As the Government of the Philippines has developed policy support for renewable energy through the Renewable Energy Act of 2008 the project appears to fit well into the sectoral context of the Philippines. The selected subsectors wind, biomass and solar are well chosen as they appear to have been underdeveloped in the past. However, the proposal remains vague overall. Furthermore, we consider the materialization of the described multiplier effect due to the show-case character of the initial pioneer projects to be co-financed by CTF funds and the achievement of the expected developmental impacts speculative at this point in time.

REAP will seek to support total additional capacity installation of 10MW+ for solar power generation, 80MW wind power generation and 15MW+ biomass power generation. According to the proposal the primary resource base (solar, wind, biomass) for these projects may well be sufficient in the Philippines. Nonetheless, the capacity factor of 18% assumed for solar projects does appear very ambitious for the Philippines. The investment sums foreseen for the proposed solar and biomass projects are plausible. The investments proposed for wind power installation seem to be very high.

Overall, the IP remains very unspecific and provides insufficient information on the financial viability of the individual projects. The release of specific rules for the Renewable Energy Act of 2008 relating to Renewable Portfolio Standards, feed-in tariffs and net metering for qualified end-users is expected in the third quarter of 2010. The final design of such regulatory initiatives is critical in order to determine whether additional CTF funding is required for the proposed investments. Consequently, the level of concessionality offered under REAP should be critically reflected and closely monitored.

Despite the overall acceptability of the programmatic approach it appears that many important issues can only be verified upon the release of the new regulatory initiatives. Therefore, we recommend that the proposal be resubmitted for review and approval after clarification of the regulatory framework to be expected in the coming months, or to look for other ways to make the proposal more specific.

## **B General Comments on the Financing Terms**

Even though it is currently expected that CTF financing would in large part be provided in the form of senior debt, IFC also considers using other financing products such as mezzanine or equity and subordinated loans for up to 30% of total allocation. The use of equity structures is thought unlikely and in any case no more than 20% of the Program funds would be structured as equity.

The CTF terms for senior debt are

- Financing: Up to US\$ 19 million (6% of incremental financing leveraged)
- Maturity: 12-18 years
- Grace: t.b.d.
- Pricing: no lower than 100 basis points

The CTF terms for mezzanine (subordinated) debt are

- Maturity: 12-18 years
- Grace: t.b.d.
- Pricing: no lower than 300 basis points

The CTF terms for equity are

- Exist & other provisions: t.b.d.
- Return: Min. returns not possible to establish at this point.

Inconsistencies exist in the proposal regarding the potential necessity for the use of mezzanine or equity funds in the different sub-sectors wind, solar and biomass. Overall, the financing terms envisaged seem very low. An appraisal whether such low pricing is truly necessary to obtain an acceptable level of project's risk/reward balance for private investors is not undertaken in detail in the proposal and also seems highly dependent upon future regulatory mechanisms. As mentioned in the proposal it should be ensured that the concession element for the financing of the proposed investments is limited to a minimum necessary to overcome key private investment barriers.

## **C Investment Criteria**

### **Potential for GHG Emissions Savings**

It is estimated that REAP will directly contribute to GHG reductions of 3.04 million tons CO<sub>2</sub>e. This estimate assumes that support will be provided to approximately 10MW solar (GHG reduction of 0.24 million tons CO<sub>2</sub>e), 80MW wind (GHG reduction of 1,75 million tons CO<sub>2</sub>e) and 15MW biomass (GHG reduction of 1.05 million tons CO<sub>2</sub>e). Due to its demonstration impact a 5x multiplier is assumed in the proposal leading to estimated indirect impacts in the development of 525MW and GHG reductions of 15.2 million tons of CO<sub>2</sub>e. Whether such figures will be achievable will to a large extent depend upon the future regulatory framework and on the sufficiency of tariffs.

According to the proposal biomass, solar and wind technologies have so far been highly underdeveloped in the Philippines (0,2% share of current electricity generation mix). The experiences with grid-tied, MW scale wind, solar and biomass power generation as envisaged under REAP are currently limited in the Philippines.

### **Cost-Effectiveness**

The proposal estimates that based upon the expected program costs of US\$ 20 million the implied direct GHG abatement per CTF dollar spent will be 0.15 tons CO<sub>2</sub>e/\$ during the life of the technologies. Implied indirect GHG reductions per CTF dollar spent will be 0.75 tons CO<sub>2</sub>e/\$ during the life of the technologies.

### **Demonstration potential at scale**

The justification for the demonstration potential at scale is based on the demonstration effect evoked by supporting and enabling early MW-scale private-sector wind, solar and biomass projects in the Philippines. It is assumed that due to decreasing equipment pricing over time and the reduction of perceived risks of such "new" technologies as

pioneer projects have successfully been implemented and that wind, solar and biomass can be transformed into traditional, commercially viable renewable energy sectors under the regulatory support of the Government of the Philippines. Furthermore, the proposal estimates that the initial projects supported by REAP will initiate a five-fold increase in projects and lead to GHG emission reductions of 15.20 million tons of CO<sub>2</sub>e (current energy sector annual production: 142 million tons of CO<sub>2</sub>e) However, as the financial viability of the projects cannot be appraised at this stage and regulatory measures are not yet fully released, the potential for replication and growth to scale are hard to assess in a comprehensive manner.

## **Development Impact**

The proposal expects that REAP will have the following developmental impacts.

- Achievement of a diversification of the Philippine's power generation mix. The power sector currently represents the principal GHG emission source in the Philippines.
- Development and support of related sectors (especially agriculture in the case of biomass).
- Creating opportunities for potential future renewable energy equipment manufacture in the Philippines.
- Parallel support of the development of these sectors in neighbouring countries in South East Asia.
- Direct and indirect job creation through the program.
- New enterprises to be created through the program.
- Access to energy for individuals through the provision of additional energy from low-carbon technologies to the central grid (no interconnection of new homes/individuals foreseen).

The Government of the Philippines wishes that poverty alleviation forms an integral outcome of the CTF assistance. Further details on the MDG-Relevance of the program are not referenced. Thus, pro-poor benefits of the projects envisaged are not very clear.

Overall, achieving the proposed developmental impacts seems to be challenging. Similarly, the number of jobs to be created through the proposed projects as well as building the industrial capacity to manufacture wind, solar and biomass power plant infrastructure within the Philippines as a result of the proposed number of projects seem optimistic.

## **Implementation Potential**

The Government of the Philippines has developed policy support through the Renewable Energy Act of 2008 and encourages the development of renewable energy (feed-in tariffs, Renewable Portfolio Standard and certain tax initiatives) via private sector investments. Whether such measures will be sufficient to transform the private renewable energy sector sustainably remains to be seen. Potential CDM benefits for the pioneer projects are separately addressed in the proposal.

As the CTF funds foreseen for REAP will only be sufficient to promote a limited number of renewable energy projects it is of high importance that parallel advisory services foreseen in the proposal will enable knowledge transfer from the initial projects supported by REAP and address key non-investment barriers.

Overall, information on the current and future tariff situation in the Philippines, existing market failures and the interlinkage between those and the proposed projects are not elaborated upon in detail in the proposal. However, such information would be needed to determine the need for additional CTF funding on a broader basis.