September 5, 2012

**Comments from World Resource Institute on the Approval by Mail: Philippines: Market Transformation through Introduction of Energy Efficient Electric Vehicles Project (ADB)**

Dear Patricia,

Thank you for the additional details on this project and the opportunity to comment on it. Although we are not fully persuaded by the arguments and information provided in the project proposal to justify the investment, we understand and are willing to go along with the decision of the committee to proceed with the project.

We hope that our attached comments will be taken into account and that continuing efforts will be made to address them even during the implementation stages.

More importantly, we also hope that this project provides lessons for other projects that are developed and submitted to the committee in future so as to allow smarter and more efficient decision-making.

Kind regards,
Cliff

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September 5, 2012

Comments on the Revised EEEV Project Documentation submitted on 14 August 2012

**Demonstration / Transformation potential at scale**

FROM WRI'S 10th JULY NOTE

The CTF investment criteria states that projects should "stimulate lasting changes in the structure or function of a sub-sector, sector or market" and demonstrate this by comparing GHG emission trajectories in the project and replication scenarios to a baseline scenario. While the impact of the project itself is clear, it remains unclear how the market will be developed to facilitate a 10:1 scale-up in emissions reductions. For example, the project proposes to develop pilot solar charging stations, but provides insufficient detail on how the solar charging network will be scaled-up.

- *What enabling regulations, incentives for private sector (including financiers), and supporting infrastructure (including ancillary industries), will be required to facilitate the transformation, and what steps are being taken to ensure that the market is put on the expected trajectory?*

COMMENTS

- For the 10:1 scale-up envisioned by the project it is not enough to merely 'demonstrate' a new technology, especially where a new market is being created; there needs to be a clear post-intervention pathway to maintain interest in e-trikes – the Supplementary Appendix's treatment of this area on page 7 only repeats aspirations and the benefits of the e-trikes
  How will private sector participation by local financial institutions be enabled through this project? Table 4 on page 12 of the Project Document states "there are currently no active banks selling financial products specifically for electric tricycles" – however this does not address how trike drivers will access financing *after* the project's completion, the project could have channeled finance and / or technical assistance through local financing institutions in order to embed lending structures and regulations in the local context. No mention of this potential intervention is made.
- With regard the pilot solar charging stations – the only mention of their scale-up is provided on page 5 of the Main Project Document, where the language is vague. There is no other mention elsewhere in the document, which reveals the lack of a clear implementation pathway for these

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stations beyond the initial 5 pilots. To what extent will future PPAs be facilitated by the government after the pilot, which will have their cost bought down by the proposed concessional finance? How will these fit in to existing renewable energy laws (the FITs)?

**Additionality**

FROM WRI'S 3rd AUGUST EMAIL

For the electric vehicles project, it seems that CTF funding will not affect the internal rate of return as such, or does so marginally due to the sensitivity of the price of the e-trikes to the volumes procured. However, CTF funding does affect the scale of the project allowing a roughly 33,000 additional e-trikes to be procured with the additional $100 million CTF funding as opposed to roughly 66,000 without CTF funding [note: the calculation accounts for the price impact assuming that the price of the e-trike will be $4,500 per unit without CTF funding as per estimates in table A2.2]. Thus, the value add of CTF funding appears to be incremental, not transformational. Moreover, the emission reductions that CTF funding is generating would then come from only the 33,000 additional e-trikes not the 100,000 e-trikes thus also affecting the volume and the cost effectiveness of the emission reductions achieved.

COMMENTS

- The information provided in the revised project documentation uses the same calculations as the previously submitted documentation for arriving at the impact of the additional CTF financing. The 'without CTF funds' scenario results in $299 million being spent at a cost of $4,500 per vehicle which can be calculated to yield 66,444 e-trikes; subtracting this total from the proposed 'with CTF funds' scenario of 100,000 e-trikes leaves 33,555 as the truly additional sum of e-trikes
- Cost-effectiveness using this amount of trikes, over the 10-year life cycle, is $111.48/ton; still significantly below the CTF guidance upper limit guidance of $200 per ton but substantially different from the $37.4 touted in the project documentation
- In addition, GHG reduction estimate were made under the assumption of the full 100,000 trikes, not the truly additional 33,555 number

FROM WRI'S 10th JULY NOTE

- *Can the GOP and ADB clarify how the EEEV project fulfills the CTF investment criteria on additional costs and risk premium (particularly paras 25-27 of the investment criteria) and provide these calculations to justify the use of CTF concessional resources?*

COMMENTS

- On page 9 of the Revised Supplementary Appendix, it states that "The FIRR and EIRR calculations suggest that the project is viable without concessional financing; however, such "paper"

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analyses do not acknowledge the cost barrier noted above, and these analyses assume the project will be successfully implemented with or without concessional funds."

  - It is unclear how the upfront cost barriers for the EEEV project and the pilot solar charging stations differ from those in any other renewable / clean technology investment and therefore deserve to be excluded from presenting FIRR and EIRR figures
  - The analysis presented in the project documentation suggest the project will go ahead "with or without concessional funds" (see the above indicative calculations on the viability of the project without concessional financing)

- While an internal rate of return analysis will not capture all of the positive (or negative) externalities associated with this project – such as the benefits of reducing black carbon, which are helpfully provided on page 6 of the Supplementary Appendix, or the negative impact of lead-based batteries – their goal is simply to show by how much concessional finance is required to raise the rate of return to viability levels. The continual absence of these figures makes the project difficult to assess objectively and keeping with CTF Investment Criteria.