PD-ABI-343

A.I.D. EVALUATION SUMMARY - PART I

1. BEFORE FILLING OUT THIS FORM, READ THE ATTACHED INSTRUCTIONS.
2. USE LETTER QUALITY TYPE, NOT "DOT MATRIX" TYPE.

IDENTIFICATION DATA

A. Reporting A.I.D. Unit:
Mission or AID/W Office USAID/Manila
(ES# _____)

B. Was Evaluation Scheduled In Current FY Annual Evaluation Plan?
Yes [XX] Slipped [ ] Ad Hoc [ ]
Evaluation Plan Submission Date: FY ____ Q ____

C. Evaluation Timing
Interim [XX] Final [ ]
Ex Post [ ] Other [ ]

D. Activity or Activities Evaluated (List the following information for project(s) or program(s) evaluated; if not applicable, list title and date of the evaluation report.)

Project No.	Project /Program Title	First PROAG or Equivalent (FY)	Most Recent PACD (Mo/Yr)	Planned LOP Cost (000)	Amount Obligated to Date (000)
492-0429	Rural Electrification	9/30/88	12/31/95	34,913	34,913

ACTIONS

E. Action Decisions Approved By Mission or AID/W Office Director

Action(s) Required	Name of Officer Responsible for Action	Date Action to be Completed
1. Plan and implement an orderly close-out of and transition from the NRECA contract - Complete draft RE Masterplan under the Project; NEA should open dialogue with other agencies to complete the Plan - Do not initiate NEA Strategic Plan - Complete draft of Cooperative Planning Manual - Complete System Planning Reports	EGast (USAID) WLawrence (NRECA)	3/31/94
2. Depending on the results of an ongoing study and availability of funding, procure more computers for training	[EGast (USAID) [TVillaflor (NEA)	12/31/94 3/31/95
3. Continue IIE TA (training) contract Transfer all training activities to the NEA training program; support NEA '94 and '95 Training Program	[HCrowe (IIE) [TVillaflor (NEA) [EGast (USAID)	3/31/94
4. Focus training on computers and institutional development	[HCrowe (IIE) [TVillaflor (NEA)	3/31/94
5. Fund policy/institutional studies	EGast/Villaflor	12/31/95
6. Depending on availability of funding, procure small "Safety PACs" for all ECs.	EGast/Villaflor	12/31/95

(Attach extra sheet if necessary)

APPROVALS

F. Date Of Mission Or AID/W Office Review Of Evaluation: (Month) Jan. (Day) 24 (Year) 94

G. Approvals of Evaluation Summary And Action Decisions:

	Project/Program Officer	Representative of Borrower/Grantee	Evaluation Officer	Mission or AID/W Office Director
Name (Typed)	Earl W. Gast	Tomas Villaflor	Sulpicio Roco	Thomas Stukel
Signature	[signature]	[signature]	[signature]	[signature]
Date	3/11/94	3/16/94	3/25/94	4/5/94

ABSTRACT

H. Evaluation Abstract (Do not exceed the space provided)

The Rural Electrification Project was designed to help achieve commercial viability of the Electric Cooperative (ECs) by addressing institutional, policy and technical weaknesses of the rural electrification systems. The project is being implemented through the National Electrification Administration (NEA), the Government of the Philippines lead agency charged with promoting and assisting development of rural electric cooperatives, and regulating their operation. This ad hoc evaluation was conducted to review progress on the implementation of Phase II of the Project, assess project requirements and identify any changes that may be needed to complete the project as planned by the PACD of 31 December 1995. The need for such an evaluation was also brought about by the Mission's budgetary constraints which required a cut in the LOP of the Project of at least $5.1 (mortgage amount), with a possible de-obligation of additional funds for rescission requirements.

The Evaluation Team worked on the evaluation for five weeks, three and a half of which were spent in the Philippines, interviewing over 75 people, visiting six ECs, and meeting with staff from NEA, USAID and the two major contractors under the Project.

The major findings and conclusions are:

- Overall, the RE Project was well-implemented as a "products-oriented" project. The Project was designed to focus upon products and deliverables, rather than processes.
- The Project addressed technical weaknesses of the NEA and ECs, and not the institutional or policy weaknesses, despite the project purpose of addressing all three. Not enought was done to address policy issues.
- Because the Project has been heavily product rather than process-oriented; there was minimal technology transfer to NEA and the ECs.

The key recommendations are:

- Implement an orderly transition from the Engineering T.A. contract (NRECA) and continue training T.A. contract (IIE).
- Conduct studies to support policy changes that would help ensure commercial viability of the ECs.
- Technology transfer be accomplished through training programs. Focus of the training program should be on use of computers and customized software introduced under the Project.

COSTS

I. Evaluation Costs

1. Evaluation Team

Name	Affiliation	Contract Number OR TDY Person Days	Contract Cost OR TDY Cost (U.S. $)	Source of Funds
Peter Borgo	International Resources Group	492-0429-C-00-4009-00	$ 78,000	R.E. Project
Arun Banskota	-do-			

2. Mission/Office Professional Staff Person-Days (Estimate) 5

3. Borrower/Grantee Professional Staff Person-Days (Estimate) 10

A.I.D. EVALUATION SUMMARY - PART II

SUMMARY

J. Summary of Evaluation Findings, Conclusions and Recommendations (Try not to exceed the three (3) pages provided)
Address the following items:

- Purpose of evaluation and methodology used
- Purpose of activity(ies) evaluated
- Findings and conclusions (relate to questions)
- Principal recommendations
- Lessons learned

Mission or Office:	Date This Summary Prepared:	Title And Date Of Full Evaluation Report:
OCP, USAID/MANILA	2/24/94	Phil. Rural Electrification Project Phase Two Evaluation Report

Purpose of the Evaluation and Background Issues

In November/December 1993, USAID signed a contract with a two-person Team from International Resources Group (IRG) to conduct an evaluation of Phase Two of the Rural Electrification Project. USAID approved Phase Two of the Project on February 26, 1992; at the same time, the PACD was extended to December 31, 1995. The purpose of the evaluation was to review progress on the implementation of Phase Two of the Rural Electrification Project, assess project requirements, and identify any changes that may be needed to complete the project as planned by the Project Assistance Completion Date (PACD) of December 31, 1995. The evaluation focused largely on the NRECA contract,the Engineering T.A. Consultant,since it was too early to evaluate the IIE contract, the Training T.A. consultant. The Team did review the training contract and make recommendations regarding its future implementation. The Team focused on providing constructive critiques and implementable solutions.

Several factors serve as important background elements to the RE Project Phase Two evaluation. First, and most important, is the budgetary constraints and limitations of USAID/Manila. Mission funds have been reduced from a peak of $400 million in fiscal year (FY) 1990 to approximately $31 million in FY93, of which 50% is mandated for family planning activities. Mission management has decided to focus efforts on addressing basic development needs, and to stop infrastructure financing and balance-of-payments support. In the energy sector, USAID is interested in providing assistance to the Department of Energy (DOE) at a policy level. USAID has made the decision to reduce and withdraw its involvement in rural electrification.

Other pertinent factors include substantial World Bank and OECF commitment to provide financial support to the RE Sector over the long-term and the new Cooperative Development Authority (CDA) Law, which requires the ECs to transition from a non-stock, not-for-profit status to a for-profit, stock company by 1995. The potential transfer of the 69 KV lines from the National Power Corporation (NPC) back to the ECs and the role of NEA as an "interested lender" remain as issues.

Findings and Conclusions

Overall, the RE Project was well implemented as a "products-oriented project". The Project was designed to focus upon products and deliverables, rather than upon processes, and a large number of deliverables were produced.

The Team's overall impression was the Project addressed the technical weaknesses of the NEA and the ECs, and not the institutional or policy weaknesses, despite the project purpose of addressing all three constraints to the commercial viability of the ECs. Although many of the studies were "institutional" in nature, the Team's view was that addressing institutional weaknesses involves much more than studies to that of technology transfer. The Project was heavily engineering-driven, and it focused upon micro problems at the NEA and the EC level, perhaps at the expense of macro problems and solutions. In many respects, the technical assistance provided was more appropriate for an "engineering" project rather than a "development" project. The Team believes that the heavy commodity procurement emphasis of the NRECA contract, World Bank Rural Electrification Revitalization Project (RERP), and possibly the OECF project should ensure that the technical needs of most ECs are adequately met to ensure commercial viability.

The Team was concerned that not enough was done to address the policy issues, which are the foundation for ensuring the commercial viability of the ECs. An operational and financial analysis of many of the ECs shows the difficulty of achieving commercial viability in the face of low and dispersed loads, responsibility without the authority to curtail non-technical system losses, and financial constraints to rehabilitation or expansion of the system.

Taken together, the impact of both system loss reduction and transfer of NPC direct-connects to the ECs would have been highly dramatic. Clearly, these two policy changes would have contributed significantly to the commercial viability of the ECs. However, little attention, whether by design or default, was focused by the Project upon being a catalyst to such changes.

Another critical policy change required is that of free market operations. The ECs should not be restrained from market operations, such as mergers, buyouts, or consolidation if that results in better service for the customers at a reasonable cost. Without studying the matter in-depth, it seems that there are a number of candidate ECs, whether because of economies of scale or managerial ineffectiveness, which would have a difficult time making the transition to commercial viability. Free market operations would allow consolidation or mergers to take place, thus enhancing the effects of economies of scale and introducing effective management.

Lastly, because the REP Project has been heavily <u>product</u> rather than <u>process</u> driven, technology transfer is an issue of concern. The focus on deliverables and the need to complete the product by the designated timetable has forced technology transfer to take a backseat, and the capability of NEA or the ECs to continue to effectively undertake many of the improvements that have been introduced by NRECA is of some doubt. The Team has recommended that some of the technology transfer that was not possible to date be accomplished through training programs during 1994 and 1995.

<u>Recommendations</u>

The Team's recommendations to NEA and USAID are primarily designed to ensure a smooth transition for USAID from the RE Sector. The Team recommends:

1. Implement an orderly transition from the NRECA contract.

   - ensure a smooth transition of planning functions. Produce a draft Master Plan by January 31, 1994 and open discussions with the World Bank for continued assistance. Do not initiate assistance to the Strategic Plan. Refine Investment Planning Model and complete CO-Op Planning Model.

   - complete all NRECA activities by March 31, 1994, except the computer installation and procurement support to be completed by June 30, 1994.

   - procure more computers for training purposes: 20 each for the two International Training Centers and 10 each for 3 ECs to serve as regional training sites.

2. Continue with the IIE Training Contract and support institutionalization of various improvements introduced under the RE Project.

   - all training activities of NRECA should be immediately transferred to the NEA Training Program being coordinated by the IIE contract.

- o support NEA training activities by funding the 1994 and 1995 Training Fund, but on a graduated cost-sharing basis to wean NEA away from USAID financing.
- o focus training on institutional development and computer skills.

3. Continue to support Policy/Institutional changes to achieve the RE Project goal and purpose.

- o conduct a study on policy/institutional measures to ensure long-term commercial viability of the ECs.
- o conduct a study of the CDA Law impact upon the ECs, identifying options and making recommendations for transitioning to a new structure.

4. Implement an orderly exit for USAID from the RE sector, while maintaining goodwill.

- o procure "SAFETY PACs" for each of the 119 ECs.
- o implement a "Think Safety" campaign.

Taken together, these recommendations will ensure a smooth transition from USAID funding for NEA and the ECs. Also, the recommendations are designed to leverage to the maximum extent USAID experience and expertise in the RE Sector, prior to the RE Project completion.

ATTACHMENTS

K. Attachments (List attachments submitted with this Evaluation Summary; always attach copy of full evaluation report, even if one was submitted earlier; attach studies, surveys, etc., from "on-going" evaluation, if relevant to the evaluation report.)

Full Evaluation Report

COMMENTS

L. Comments By Mission, AID/W Office and Borrower/Grantee On Full Report

Comments submitted to or discussed with the consultant by USAID, NEA and the project contractors were addressed in the final report, where appropriate. The major findings in the report generally concur with conclusions reached by USAID staff and host country officials. Some minor recommendations which USAID and/or NEA do not fully concur with are as follows:

1. "USAID should evaluate and, if deemed more efficient, encourage consolidation of the two training divisions within National Electrification Administration (NEA)".-- NEA has opined, and USAID agrees, that the issue is an internal matter to NEA and should be initiated by NEA and not USAID.

2. "A two-year computer services contract for NEA and ECs should be purchased, with Rural Electrification Project fuding for 75% and 50% of the total cost for 1995 and 1996". -- USAID has expressed doubt on the feasibility of forward funding such a contract, as the PACD is 31 December 1995.

3. "Conduct a feasibility study on a sample of 20 "non-viable" island ECs to make them commercially viable". -- NEA believes such a study should cover all 20 island ECs, while USAID believes that a comparative study of one successful EC versus a non-viable EC of the same category would be more useful in terms of identifying factors to successful EC operations.