PD-ABP-272

CONFORMED COPY

USAID Program No. 492-0487

STRATEGIC OBJECTIVE

GRANT AGREEMENT

BETWEEN THE

REPUBLIC OF THE PHILIPPINES

AND THE

UNITED STATES OF AMERICA

FOR THE

GLOBAL CLIMATE CHANGE

MITIGATION PROGRAM

Dated: September 30, 1996

USAID Program No. 492-0487

STRATEGIC OBJECTIVE GRANT AGREEMENT FOR THE GLOBAL CLIMATE CHANGE MITIGATION PROGRAM

Dated: September 30,1996

Between The Republic of the Philippines (the "Grantee") and The United States of America, acting through the Agency for International Development ("USAID").

Article 1: The Agreement.

The purpose of this Agreement is to set out the understanding of the parties named above (the "Parties") about the Global Climate Change Mitigation Program (the "Program") described below, and the financing of the Program by the Parties.

Article 2: The Program.

Section 2.1. The Program Objective and Results. The ultimate Program Objective is to reduce emission of greenhouse gases in the Philippines. This objective will be achieved through the implementation of various activities under the Philippine Energy Plan and the Power Development Plan that will result in reduced greenhouse gas emissions. The Program will support the implementation of these activities through the development of policies and regulations, and improved access to information and technology that encourages the use of cleaner fuels and efficient measures in the power sector. In order to meet the ultimate Program Objective, the Parties agree to work together to achieve the following result: Reduce greenhouse gas (GHG) emissions through the use of cleaner fuels and improved energy efficiency.

Within the limits of this definition of the Program Objective, the Parties will from time to time agree on a set of Benchmarks for measuring progress in Annex 1 to this Agreement. Annex 1 may be changed by written agreement of the authorized representatives of the Parties designated in Section 6.2 without formal amendment of this Agreement.

Section 2.2 Performance Indicators. Performance indicators allow the Parties to verify progress towards the overall Program Objective over agreed upon periods of time, so that the Parties can make necessary adjustments in the Benchmarks and Activities described in Annex 1. Indicators may be changed by written agreement of the authorized representatives of the Parties designated in Section 6.2, without formal amendment of this Agreement.

The Program Objective will be achieved starting in 2002 when the natural gas-fired power plants are commissioned. The Indicators for achieving the Program Objective are:

1. Metric tons (MT) of avoided global GHG emissions through the use of cleaner fuels.

2. Metric ton (MT) of avoided Global GHG emissions through improved energy efficiency.

3. Metric tons (MT) of associated local sulphur dioxide (SO_2) avoided through use of cleaner fuels.

4. Metric tons (MT) of associated local SO_2 emissions avoided through improved energy efficiency.

The units the Parties will use to measure progress towards the Indicators will be:

1. Avoided metric tons of carbon dioxide - equivalent (CO_2-eq) GHG emissions; and

2. Avoided metric tons of sulphur dioxide local emissions.

Interim benchmarks and indicators between 1996 and 2000 will be established based on the specific activities to be implemented.

Section 2.3 Measuring Progress

The Parties agree to cooperate fully in determining whether satisfactory progress toward the Indicators is being made and whether the Indicators are met, and to make all relevant information to these ends, as more fully described in Annex 1 and Joint Implementation Letters.

Article 3. Contributions of the Parties.

Section 3.1. USAID Contribution.

(a) To help achieve the Program Objective set forth in the Agreement, U.S.A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, agrees to grant the Grantee under the terms of the Agreement two million nine hundred thirty thousand United States ("U.S.") Dollars ($2,930,000) (the "Grant").

(b) U.S.A.I.D.'s total estimated contribution to achievement of the Program Objective is U.S. $12,000,000 which may be provided in increments. Subsequent increments will be subject to availability of funds to U.S.A.I.D. for this purpose, progress towards the Program Objective and the mutual agreement of the Parties, at the time of each subsequent increment, to proceed.

(c) In the unlikely event that U.S.A.I.D. determines that its contribution under Section 3.1(a) exceeds the amount which reasonably can be committed for achieving the results and carrying out the activities set forth herein during the current or next U.S. fiscal year, upon written notice to the Grantee U.S.A.I.D. may withdraw the excess amount, thereby reducing the amount of the Grant as set forth in this section. When the amount to be withdrawn is to be reobligated or reprogrammed for use in another Agreement between the Parties, U.S.A.I.D. will consult with the Grantee about the use of that amount. When the amount must be reobligated for use outside of the Philippines, U.S.A.I.D. can only endeavor to explain how that amount will be used. Actions taken pursuant to this section shall not revise U.S.A.I.D.'s total estimated contribution to the Agreement as set forth in Section 3.1(b) of the Agreement.

Section 3.2. Grantee Contribution.

(a) The Grantee agrees to provide or cause to be provided in order to achieve the Program Objective, all funds, in addition to those provided by U.S.A.I.D. and any other donor identified in Annex 1, and all other resources required to achieve the Program Objective on or before the Completion Date.

(b) The Grantee's estimated contribution over the life of the project will not be less than the peso equivalent of U.S. $5,200,000 in cash and/or "in-kind". This includes $1,200,000 in cash expenditures to offset value-added tax (VAT) charges, including E-Vat, on grant-financed goods and services incurred during the life of the Agreement. The Grantee's estimated contribution shall be increased by such amounts as may be necessary to cover any additional VAT (or similar) charges assessed based on laws, regulations or policies enacted after the date of this Agreement.

Section 3.3 Reporting.

Both Parties will report annually in a mutually agreed upon format on their respective contributions to the achievement of the Program Objective.

Article 4: Completion Date.

(a) The Completion Date is September 30, 2000, or such other date as the Parties may agree to in writing. The Completion Date is the date by which the Parties estimate that all activities necessary to achieve the Program Objective will be completed.

(b) Except as U.S.A.I.D. may otherwise agree in writing, U.S.A.I.D. will not issue or approve documentation which would authorize disbursement of the Grant for goods or services provided or other actions taken as contemplated in this Agreement, subsequent to the Completion Date.

(c) Requests for disbursement, accompanied by necessary supporting documentation prescribed in Implementation Letters, are to be received by U.S.A.I.D. no later than nine (9) months following the Completion Date, or such other period as U.S.A.I.D. agrees to in writing. After such period U.S.A.I.D., giving notice in writing to the Grantee, may at any time or times reduce the amount of the Grant by all or any part thereof for which requests for disbursement, accompanied by necessary supporting documentation prescribed in Implementation Letters, were not received before the expiration of said period.

Article 5: Special Covenants.

Section 5.1. Program Evaluation. The parties agree to establish an evaluation plan as part of the Program. Except as the Parties otherwise agree in writing, the plan will include, during the implementation of the activities and at one or more points thereafter:

(a) evaluation of progress and results toward attainment of the objectives of the Program;

(b) identification and evaluation of problem areas or constraints which may inhibit such attainment;

(c) assessment of how such information may be used to help overcome such problems; and

(d) evaluation, to the degree feasible, of the overall development impact of the Program.

Article 6: Miscellaneous.

Section 6.1. Communications. Any notice, request, document, or other communication submitted by either Party to the other under this Agreement will be in writing or by telegram, telefax or cable, and will be deemed duly given or sent when delivered to such Party at the following address:

To the Grantee:

Mail Address: National Economic and Development Authority
P.O. Box 419, Greenhills, Metro Manila
Philippines

Alternate address for cables: NEDAPHIL
telefax: 631-2194

To U.S.A.I.D.:

Mail Address: U.S. Agency for International Development
c/o The American Embassy
Manila, Philippines

Alternate address for cables: USAID/AMEMB MANILA
telefax: 521-48-11

All such communications will be in English, unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon the giving of notice.

Section 6.2. Representatives. For all purposes relevant to this Agreement, the Grantee will be represented by the individual

holding or acting in the Office of the Director-General of the National Economic and Development Authority and U.S.A.I.D. will be represented by the individual holding or acting in the Office of the Director, U.S.A.I.D. Mission to the Philippines, or the U.S.A.I.D. Strategic Objective Team Leader for the Program, each of whom, by written notice, may designate additional representatives for all purposes other than exercising the power under Section 2.1 to amend Annex 1 or Section 2.2 to change indicators. The names of the representatives of the Grantee, with specimen signature, will be provided to U.S.A.I.D., which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

Section 6.3. Standard Provisions Annex. A "Standard Provisions Annex" (Annex 2) is attached to and forms part of this Agreement.

IN WITNESS WHEREOF, the Grantee and the United States of America, each acting through its duly authorized representatives, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

REPUBLIC OF THE PHILIPPINES

By:

Dante B. Canlas

Title: Acting Director- General
National Economic and
Development Authority

UNITED STATES OF AMERICA

By:

Dennis C. Zvinakis

Title: Acting Mission Director
United States Agency for
International Development

WITNESSED BY:

By:

Dr. Francisco Viray

Title: Secretary
Department of Energy

X

ANNEX 1: AMPLIFIED PROGRAM DESCRIPTION GLOBAL CLIMATE CHANGE MITIGATION PROGRAM

I. Introduction

This Annex 1 to the Agreement between the Grantee and USAID for the mitigation of greenhouse gases describes the activities to be undertaken and the results to be achieved with the funds obligated herein. Nothing in this Annex 1 shall be construed as amending any of the definitions or terms in the attached Agreement.

II. Background

The population of the Philippines has quadrupled to 68 million in the past fifty years, and will double again in approximately 30 years. The country's economy is expanding rapidly, and projected to continue growing at an annual rate of about seven percent for the next decade.[1] This rapid economic and population growth is fueling an exponential increase in the demand for power and transport services by the industrial, manufacturing, service and residential sectors of the economy.

---

[1] Philippine Energy Plan 1996-2025.

The industrialized countries supported their economic growth through the expanded use of fossil fuels. These fuels provided the foundation for industrialization, but also produced the severe air pollution problems most industrialized countries face today. Countries like the Philippines that are on the road to industrialization recognize that they must seek alternative, more sustainable development paths. The expanded use of fossil fuels not only aggravates local air pollution that damages human health, but it also contributes to global warming, potentially damaging the world's ecosystems and radically altering the world's weather pattern. For a country like the Philippines that does not possess large indigenous reserves of fossil fuels, expanded dependence upon imported fuels also puts the future growth of the economy at risk from disrupted supplies. Therefore, the increasing power demand created by an expanding economy and population provide the Philippines with an unprecedented opportunity to lead Southeast Asia in designing and implementing more sustainable power system.

The recently completed Philippine Energy Plan (PEP) shows the country still depending upon fossil fuels to meet its future energy needs. USAID has used this plan, and the recently completed 1990 inventory of GHG sources, to estimate future GHG emissions from the power and manufacturing sectors. Based on this analysis, USAID predicts that GHG emissions from the power and industry sectors will grow from about 34.5 million metric

12

tons (MMT) in 1990 to approximately 115 MMT/year by the year 2002.

By implementing the GCCM Program, the GOP can reduce GHG emissions by at least 21 MMT by the year 2002 with no adverse impact on its economic growth. The major impact of the GCCM Program on GHG emissions will occur in 2002 when natural gas-fired power plants will be commissioned. USAID will work with its partners in government, with privately owned power utilities and the NGO community to promote the expanded use of more environmentally-friendly approaches to meeting power demands.

III. Funding

The Financial Plan attached (Table 1) forms part of this Annex 1. As with any other portion of this Annex 1, it may be amended by written agreement of the authorized representatives of the Parties designated in Section 6.2 without formal amendment of the Agreement, provided that such changes do not cause (1) USAID's contribution to exceed the amount specified in Section 3.1 of the Agreement, or (2) the Grantee's contribution to be less than the amount specified in Section 3.2 of the Agreement.

The Grantee contribution consists of support by the DOE and energy related agencies (listed in Section VI) for maintenance and operating expenditures for the Program, (staff salaries,

4. Improving access to Information, and financing for renewable energy projects;

5. Helping to improve power plant generation and transmission efficiency;

6. Helping to restructure the power distribution sector to improve system reliability and efficiency, provide economies of scale and lower costs for the consumer, and minimize the need for future government guarantees in the power sector;

7. Helping to incorporate demand side management (DSM) into the industrial, commercial and residential energy planning and use to increase energy efficiency;

8. Helping to incorporate long-run marginal costing of electricity into the development of long-term energy plans and the design of energy rate structures; and

9. Helping to incorporate integrated resources planning (IRP) into utility planning for future energy development needs.

Other activities may be undertaken as deemed necessary through joint action by USAID and members of the Program Steering Committee to further the objectives of this Agreement. All activities selected for financing under this Agreement must:

(1) support the Objective, (2) be consistent with the Program as described herein, (3) be feasible and technically, administratively, environmentally and socially sound, (4) have adequate financing based on reasonably firm cost estimates, and (5) be capable of completion by the Completion Date.

V. Results to be Achieved

The performance indicators for the Program Objective specified in Art. 4 are stated in Sec. 2.2 of the Agreement. The major impact of the Program will occur after the Completion Date when the natural gas-fired power plants are commissioned in 2002. Interim Benchmarks between 1995 and 2000 may be established in subsequent revisions to this Annex 1 or Program Implementation Letters. The results to be achieved with the Grant are described below in terms of benchmarks to be met starting in 2002 with funding obligated in FY 96:

1) Avoided carbon dioxide-equivalent GHG emissions through the use of cleaner fuels increases annually from 0 metric tons (MT) in 1995 to 18,231,000 MT;

2) Avoided sulfur dioxide local emissions through the use of cleaner fuels increases annually from 0 MT in 1995 to 189,000 MT;

3) Avoided carbon dioxide-equivalent GHG emissions through improved energy efficiency increases annually from 242,000 MT in 1995 to 555,000 MT; and

4) Avoided sulfur dioxide emissions through improved energy efficiency activities increases annually from 2,000 MT in 1995 to 4,700 MT.

VI. Roles and Responsibilities of the Parties

Given the diverse nature of the program, an inter-agency approach shall be undertaken to provide oversight, planning, coordination and facilitation of activities design to achieve the program's objective. A Program Steering Committee will be formed, composed of representatives listed below. The Steering Committee will meet on a semi-annual basis to review implementation plans and progress and designate the lead organization for each program activity.

(a) The Government of the Philippines will be represented by the following agencies:

1. Department of Energy (DOE)
2. National Power Corporation (NPC)
3. National Electrification Administration (NEA)
4. Energy Regulatory Board (ERB)

5. Department of Environment and Natural Resources (DENR)
6. National Economic and Development Authority (NEDA)
7. Philippine National Oil Company (PNOC)

(b) The private sector will be represented by MERALCO and PEPOA.

(c) USAID will be represented by its Energy Program Team leader.

Depending on the type of activity to be undertaken, one of the above agencies (with the exception of USAID) shall take the lead in its implementation. USAID, through direct contracts, will provide technical services, training and some limited commodities to facilitate the achievement of program objectives.

VII. <u>Program Implementation</u>

(a) Duties of the Steering Committee

The Parties will convene an initial planning session as soon as possible after the Grant Agreement is executed to nominate and agree on the membership and Chairmanship of the Steering Committee [referenced in Section VI above]. The Steering

Committee will then decide on its operational definitions and procedures. The participants for the initial planning session will be identified in a separate joint implementation letter to be approved by the parties. USAID will initiate this program implementation letter.

The responsibilities of the Steering Committee shall cover, but not be limited to, the following:

1. Review and agree on the definitions for the terms included in the Results, Targets, Indicators and Benchmarks specified in the Agreement.

2. Provide over-all guidance on policy and program direction.

3. Review the activities and corresponding resource requirements, in the form of annual implementation plans, to be undertaken in support of the Program Objective and Results, endeavoring for consistency with Philippines strategies and priorities. In conjunction with this review, designate the lead agency for each activity identified in the implementation plan.

4. Monitor progress of Program implementation using the indicators identified in the Agreement and specific benchmarks identified in the annual implementation plans.

5. Review of all major revisions of Program activities.

(b) Implementation of Activities:

Activities proposed for financing under the Agreement will be included in annual implementation plans that will be reviewed by the Program Steering Committee. In addition to the review by the Steering Committee, each member will approve those specific activities for which their agency will take the lead action. Specific activities can be adjusted or amended as necessary with the approval of the respective lead agency. Each agency will be responsible for informing the Steering Committee about such changes.

VIII. Monitoring, Evaluation and Audits

Two external evaluations are scheduled for the program: a) a mid-term, process evaluation planned for the third quarter of FY 1998, and b) a final impact evaluation scheduled for the last quarter prior to the completion of the Program. After the mid-term evaluation, the GOP and USAID will make any mid course corrections deemed necessary to improve the effectiveness and efficiency of the program. The final impact evaluation will focus on the institutional, operational and demographic impact of the Program.

Financial audits of the activities will be conducted in accordance with standard procedures contained in Annex 2 of this Agreement. In addition, there will be periodic "performance audits "based on a range of indicators to measure progress in achieving the strategic objective.

With respect to all subrecipients receiving funds directly from USAID under the Agreement, such as direct USAID contractors or direct USAID NGO grantees. in lieu of an audit plan provided under subsection (e) of Section B5 in Annex 2, the USAID agreement with these entities will contain appropriate audit requirements (including audit thresholds) for these funds and funding for such audits from Agreement funds where appropriate.

The Grantee will maintain books and records under this Agreement, including books and records concerning its contribution under this Agreement, in accordance with generally accepted accounting procedures prevailing in the Philippines.

Table 1: Financial Plan of Activities ($000)

Activity	Principal Partners	Obligation FY - 1996	Proposed FY - 1997	Proposed FY - 1998	Proposed FY - 1999	Total Proposed Budget	Estimated Counterpart Contribution[1]	GOP Cash Contribution for VAT[2]	Total Counterpart Contribution
1.0 Expanded Use of Clean Fossil Fuels and Renewable Energy for Power Generation	DOE ERB NPC	$1,500[3]	$900	$900	$450	**$3,750**	$1,250	$375	**$1,625**
2.0 Improved efficiency in electricity generation, transmission, distribution and consumption	DOE ERB NPC NEA Pvt. Utilities	$1,000	$1,430	$1,450	$1,870	**$5,750**	$1,917	$575	**$2,492**
3.0 Other Technical Support	DOE DENR NPC	$230	$340	$250	$180	**$1,000**	$333	$100	**$433**
4.0 Management, Evaluation & Audit	DOE ERB NPC NEA Pvt. Utilities	$200	$400	$400	$500	**$1,500**	$500	$150	**$650**
TOTAL		$2,930	$3,070	$3,000	$3,000	**$12,000**	$4,000	$1,200	**$5,200**

---

[1] Represents the 25% minimum statutory requirement based on total project cost. This may be provided in cash or in kind by both GOP and participating private utilities. The Peso equivalent of the GOP counterpart contribution shall be determined based on an exchange rate of $1.00:P25.00.

[2] Estimated cash counterpart to offset VAT was based on a flat rate of 10% of total USAID obligation.

[3] Includes $1,200,000 earmarked for renewable energy.