**Manila power development project**

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The Philippines Manila Power Distribution Project, supported by Loan 3084-PH for US$65.5 million equivalent, was approved in FY89. The loan was closed fully disbursed in FY96, one year behind schedule. There was no co-financing. The Implementation Completion Report (ICR) was prepared by the East Asia and Pacific Regional Office. A summary of the Borrower's contribution and comments on the ICR are included as appendices.

The project’s main objectives were to assist Manila Electric Company (MERALCO), the private power distribution company that serves Metro Manila and its surroundings, to improve the quality of its services and meet growing demand. Accordingly, the project funded (i) construction and upgrading of distribution and communications systems and (ii) equipment and vehicles to improve maintenance. Under the loan, MERALCO also undertook to reduce system losses, improve service reliability and reduce accounts receivable.

The project met its key objectives. However, completion of the main items was delayed by about 22 months. For other items the delays were much longer. The main reason for these slippages was MERALCO’s delayed decision on the appropriate distribution voltage for the long term. The Bank was slow to recognize this issue, which did not affect the broad composition of the project but substantially changed the individual packages to be financed. Systems losses were reduced from 22 percent to 13 percent (against a target of 16 percent). The reliability of supply, which declined until 1993 because of distribution capacity shortages (addressed through the project), returned to its 1985 level by 1995. By 1995, overdues were at a satisfactory 0.9 months of billings. At completion, the economic rate of return on MERALCO’s investment program (32 percent at appraisal) was recalculated at 46 percent. The Bank was instrumental in helping establish MERALCO’s credit worthiness and in weaning it from official development finance. The project also helped develop a new mechanism for channeling official development funds to the private sector using the Development Bank of the Philippines as an intermediary.

Like the ICR, OED rates project outcome as satisfactory and sustainability as likely in view of MERALCO’s prospects for continued efficiency improvements and its access to the capital markets. Institutional development impact is rated as modest, as the project’s objectives were primarily physical, and Bank performance as satisfactory.

The main lesson from the project is that Bank assistance to a private utility, when handled

through appropriate financing mechanisms, can help establish that utility’s credit worthiness and open its access to the financial markets.

The quality of the ICR is satisfactory.

No audit is planned.