Summary

1st Clean Energy Finance and Investment Consultation Workshop

"Unlocking finance and investment for clean energy in the Philippines"

31 May – 1 June 2022

Makati Diamond Hotel, Legazpi Village, Makati City

The Organisation for Economic Co-operation and Development (OECD) launched its new Philippines Clean Energy Finance and Investment Mobilisation Programme on 13 December 2021 to support the Philippines' efforts to accelerate finance and investment for clean energy. As one of the Programme's flagship output, the OECD, in collaboration with the Department of Energy (DOE) and the Inter-Agency Task Force on Sustainable Finance, is developing a Clean Energy Finance and Investment Roadmap of the Philippines, which will bring government and private sector stakeholders together to agree upon a clear action plan that identifies and addresses bottlenecks complicating or constraining finance and investment in the country. As an input to the Roadmap, this first Workshop (in a series of three) brought together key stakeholders to identify and discuss key barriers to scaling up finance and investment for clean energy in the Philippines. This document provides a summary of the Workshop's discussion.

Sustainable finance and investment is a key priority of the Philippines

- Plugging the infrastructure (investment) gap is a key priority under the Philippines *Ambisyon Natin 2040* and Philippines Development Plan (PDP) 2017-22. However, as the Government recognises, **mainstreaming sustainability into the country's infrastructure development plan is critical** to set the Philippines' economy onto a low-carbon and resilient development pathway and thereby deliver on its Paris Agreement commitments to reduce emissions by 75% by 2030 compared to business as usual (BAU).
- As set out in the PDP 2017-22 and Philippine Energy Plan (PEP) 2020-40, the energy sector is to play a major contribution to the country's economic and climate objectives. The pursuit for energy transition through the Clean Energy Scenario (CES) in the PEP 2020-2040 will necessitate around USD 153 billion of cumulative investment in the energy sector (excluding energy efficiency) to 2040, of which USD 94.3 billion is in the renewable power generation sector alone. Given its size, **meeting investment needs will require mobilising all sources of capital – foreign and domestic, public and private**.
- Conscious of the challenge, **the Philippines recognises the importance of Overseas Development Assistance (ODA) to support climate and clean energy investment** in the country (particularly as nearly all of its nationally determined contribution target is conditional). Hence, the Philippines has been tapping international development initiatives such as the ASEAN Catalytic Green Fund (under ADB), EDSA Greenways project, and is looking to tap additional ones such as the Climate Investment Funds (CIF).

- The Philippines is also **endeavouring to steer private capital towards greener opportunities through the implementation of the Sustainable Finance Roadmap and other regulations**. Most notably, the Inter-agency Task Force on Sustainable Finance is seeking to mainstream sustainability into the country's financial system and publicly listed companies' activities (see background paper for more details). At the regional level, the Philippines has also been actively contributing to the ASEAN sustainable finance agenda, which is crucial to create a harmonious and integrated regional sustainable finance and investment framework (see **Box 1**).

Box 1. The Philippines' contribution to the ASEAN Sustainable Finance Agenda

- The Philippines (through the Securities and Exchange Commission) has been active in a number of key working groups/council at the ASEAN level related to sustainable finance. The Philippines is notably:
  - The Co-chair of the ASEAN Capital Market Forum Sustainable Finance Working Group (ACMF SFWG)
  - The Co-chair of the Joint Sustainable Finance Working Group (JSFWG) of the ACMF and Working Committee on Capital Market Development (WC-CMD);
  - An alternate member of the international Capital Markets Association (ICMA) Green Bond Advisory Council.
- Under these, the Philippines has notably been contributing to the development of an ASEAN Taxonomy as well as defining standards for Green, Social and Sustainability bonds. Equally, it has also been making contributions to the development of the Roadmap for ASEAN Sustainable Capital Markets.

- In addition, Foreign Direct Investment (FDI) has also represented a key lever for the Philippines' government to accelerate infrastructure deployment in the country. As investment in renewable power generation will have to increase by a factor of 7 until 2030, scaling up FDI in the clean energy sector will likely be important. **Yet, as of 2019, FDI in the clean energy sector accounted for a mere 1% of total clean energy investment.**

Efforts are underway to kick-start an energy efficiency market in the Philippines

- **The Philippines has made considerable efforts in recent years to build a comprehensive policy and regulatory framework for energy efficiency in the country.** In particular, the Philippines passed the energy efficiency and conservation law in 2019, which mandates the implementation or/and upgrade of minimum energy performance standards (MEPS), the Philippines Energy Labelling Programme (PELP), Strengthening of Energy Service Companies (ESCOs), Provision of Incentives to Energy Efficiency Projects, Professionalism of those engaged in Energy Efficiency (CEM, CECO, CEA) and requires end-users (i.e. designated establishments or DE's in commercial, industrial, and transport sectors) to submit energy consumption reduction plan and report on progress (see background paper for more details).
- The law also mandates the **implementation of the Government Energy Management Program (GEMP), which requires all government offices including Local Government Units (LGUs) to reduce monthly electricity and petroleum products consumption by 10%.** This in turn, is hoped to help kick-start an energy efficiency market in the country, which so far remains in its infancy.
- Nevertheless, **current compliance with the GEMP remains low, as only around 6.6% of government entities are compliant.** To overcome this issue, awareness raising campaigns, capacity building and further incentive were highlighted as being key efforts to help LGUs further adopt energy efficiency solutions and thereby achieve GEMP objectives.
- On a positive note, **efforts undertaken by the City of Santa Rosa show that compliance is possible**, despite challenges to gather data and information (see **Box 2**).

Box 2. Santa Rosa City: experience complying with GEMP

- Santa Rosa is a 1st class component city located in the south of Luzon and inhabited by 414,812 people. The city has been a country pioneer in undertaking energy efficiency and conservation efforts and, as of late, making important progress towards the GEMP objectives.
- Indeed, through the implementation of key energy efficiency measures, the city managed to reduce energy consumption. For instance, the installation of solar panels and replacement of lighting fixtures to LED lights in one of its city hall building complexes in mid-2019, enabled a roughly 8% reduction in average power consumption (79,571 kwh in 2019) compared to a year prior (86,680 kwh in 2018). Other key measures were also implemented such as the installation of LED metered streetlights, the conduct of regular awareness raising campaigns as well as the upgrade of energy consumption and equipment inventory data and information.
- In addition, Santa Rosa is among the very few cities in the country to have adopted a Local Energy Code and formulated its Local Energy Efficiency and Conservation Plan (LEECP) with the Technical assistance of PLLENRO and USAID. It has also submitted a number of key documents related to its energy consumption (e.g., monthly electricity consumption report, an inventory of office equipment etc.) to the Department of Energy.
- As highlighted, the collection and monitoring of key data and metrics relative to the municipality energy consumption of municipal building and vehicle fleet was particularly challenging. This was notably overcome through the allocation/recruitment of specific officers/staff to report on and monitor the energy consumption of, as well as inspect and maintain, municipality buildings, public street lighting and electric vehicle fleet. Educational campaigns are being further considered by Santa Rosa's LGU to continue improving both energy efficiency and data gathering.

- **Current MEPS and PELP were highlighted to be important measures to nudge consumers towards more efficient equipment/appliances; however, while a step in the right direction, gradually increasing stringency will be important**. Indeed, there is still very few energy efficient products in the market (e.g., window residential air-conditioners remain ubiquitous in the Philippines compared to other ASEAN countries) and there is a shortage of relevant laboratories to test efficient cooling appliances as well as lack of clarify regarding responsibility over those between DOE and Department of Trade and Industry. **MEPS requirements are also believed to be too low at present, particularly when compared to other ASEAN nations.**
- Equally, protection against "fly-by-night" technologies -- e.g. in the form of seal of approval for novel technologies or inventor-to-end-user matching mechanisms -- was also flagged as key to overcome technology risks.
- Discussants also highlighted that there remains an important need for incentives to support energy efficiency project development. In this regards, current efforts to make fiscal incentives available for energy efficiency projects under the Board of Investment (BOI) are welcome. **Additional measures such as the implementation of a carbon tax or certification mechanisms such as the definition of a state carbon-neutral building certification were mentioned as other possible solutions to explore.**
- Access to affordable, (project) finance remains a well-known challenge for energy efficiency project developers. Indeed, **energy efficiency projects are often deemed too small or/and risky by financial institutions, which often require high level of collateral requirement** from project proponents. Some public banks highlighted some of their key programmes to which energy efficiency projects are eligible, which is encouraging. Still, discussants stressed the continued difficulties faced by Micro, Small and Medium Enterprises (MSMEs), who make up more than 99% of total firms in the Philippines and account for half of the country's energy consumption, in accessing such (or similar) programmes in practice.

There are tremendous opportunities for electric vehicle development

- The Philippines' transport sector accounts for close to a third of total final energy consumption and close to a quarter of the country's greenhouse gas emissions. In the face of rising global oil prices, **increasing the share of electric vehicles in the Philippines can help support the country's clean energy, energy security and climate objectives**.
- Despite the country's potential, however, there remains immense opportunity to increase electric vehicles penetration in the country, particularly for two-wheelers, and associated local manufacturing development; indeed, **out of roughly 13 million road vehicles in the Philippines, only around 0.1% are currently electric** (mostly e-motorcycles and e-trikes) and 155 charging stations are available.
- Aware of this opportunity, the Philippines enacted **the Electric Vehicle Industry Development Act (EVIDA on 15 April 2022. Correspondingly, the CES of the PEP 2020-2040 also stipulates the target to increase the penetration rate of electric vehicles for road transport by 10%;** energy saving on oil products and power by 5%; require government and corporate to have 5% of its fleet as EVs; building owners and establishments to allot parking spaces with charging stations for EVs and construction of charging stations in gasoline stations; DUs to provide power requirement for charging stations and include it in their development plan; and deploy alternative fuel vehicles for transport and non-transport by 2040 respectively.
- Most notably, the Act aims to enable the environment for the development of electric vehicles and supporting infrastructure. On the latter, **participants expressed concerns about aspects of development of charging stations (particularly around requirements for building-owners to install and inter-operability)** and their financing.
- It was clarified that, while **EVIDA has provisions in place for homeowners to set up charging stations, there is no requirement for them to do so**; it is however mandated for a condominium/building owner to give access for those who wish to set up said stations. Stations are also to be standardised (both AC and DC) while interoperability aspects will be taken care of by the commercial electric vehicle charging provider.
- Last, the government highlighted it was currently exploring green hydrogen (for fuel cells or power) seeing its potential role for future development, albeit recognizing it still remains in its early days.

The Philippines is committed to accelerating renewable energy investment, although hurdles remain

- The Renewable Energy Act of 2008 recognises the importance of renewable sources of energy to power the country's future. Yet, since the implementation of the law, **the share of coal, oil and gas in total power generation has been trending upward, while the share of renewable energy has symmetrically shrunk**.
- In the face of this challenge, **the Philippines has, over the last few years, implemented a slew of measures to reverse these trends** and deliver on its goal to increase the share of renewable power– FiT scheme (2010), RPS rule for on-grid areas (2017), the green energy option programme or GEOP (2018), Competitive Renewable Energy Zones or CREZ (2018), the green energy auction programme or GEAP (2021), etc. (see background paper for more details). While these policies are welcome, they are yet to result in a large-scale increase of renewable power capacity in the country as **a number of challenges continue to constrain renewable energy finance and investment**. **Among other things:**
- **Permitting and land access continue to represent major and persisting roadblocks to renewable energy project investment in the Philippines**. As it was recognised, the implementation of the Energy Virtual One Stop Shop (EVOSS) System has helped reduce permitting lead time (by around a 100 days), although the process still remains particularly lengthy (around 1773 days) and hence have room for further streamlining. Doing that, however, requires ensuring greater involvement of and cooperation among various government institutions (e.g., LGUs, ERC) under EVOSS, particularly as those have important responsibilities over parts of project permitting (e.g., environmental impact assessment, siting etc.). In the same breath, **land access is still considered a particularly complex process, mostly due to fragmented land ownership and a burdensome land conversion process (e.g., from agricultural to industrial use).**
- **The GEOP (allowing corporate sourcing of renewable power) remains beset by numerous issues, despite representing a great opportunity to accelerate the corporate sourcing of renewable energy in the Philippines.**

This includes a lengthy "supplier switching" process characterised by delayed registration/certification, complex process for upgrading meters, coordination issues with distribution utilities / electric cooperatives, among others. Equally, the lack of harmonisation of compliance requirements and registration process between the GEOP and the Retail Competition and Open Access (RCOA) mechanism (another scheme allowing the corporate souring of power – including from non-renewable sources) was highlighted as an important area to be addressed, as potentially inequitable and hence constraining uptake.

- The implementation of the competitive selection process (CSP) rules to help distribution utilities comply with the Renewable Portfolio Standard (RPS) requirements has been a welcome step. Still, **current requirements to classify CSPs by technologies' mode of operation (e.g., baseload, mid-merit, peak) could limit access of variable renewable projects to CSPs** and thereby contravene to the CSP's technology neutrality principle.
- The CREZ was overall praised as an important opportunity to improve grid planning and direct grid development to places that optimise the use of the country's renewable resources. Notwithstanding, **the CREZ has yet to be adopted by the National Grid Corporation of the Philippines' (NGCP)** meaning developers continue to be required to advance the cost of transmission upgrade/extension.
- **Accelerating project development in off-grid areas remains complex.** Electric cooperatives in remote areas often lack support and capacity to both develop and fund projects. Similarly, access to the UCME subsidy is often difficult, considerably slowing project development. Potential solutions to consider include: facilitating the UCME process (notably through pre-approved rates by the ERC) as well as establishing training facilities for electric cooperatives (particularly for the development, installation and operation of power plants).
- **Despite these challenges, commercial banks see renewable energy projects as an important financing opportunity.** A number of large banks have already designed green finance/energy lending programmes, to which renewable energy projects are eligible – including merchant plants. Indeed, while merchant plants are still perceived as particularly risky, some banks indicated being willing to finance some of them, albeit with considerably low gearing ratios (e.g., 50/60% debt).
- Still, commercial bank participants highlighted the lack of "bankable" projects (both in terms of project financial soundness and ticket size), despite having sufficient liquidity and appetite to fund them. Consequently, the largest banks have mainly financed projects undertaken by the market's largest players. Meanwhile, **smaller independent power producers continue to be perceived as risky and hence have had limited access to limited recourse project finance**. Hence, portfolio aggregation, the use of guarantee mechanisms and other blended finance mechanisms could represent potential solutions to explore. Other options, such as Islamic finance, can also be considered to support specific areas and market segments.

Key take-aways and way forward

- The Philippines boasts a remarkable clean energy potential, and while renewable capacity has grown over the last two decades, there still is room for further deployment. The Government is conscious of the challenge and has been making significant efforts to accelerate investment, particularly over the last five years. As a result, clean energy has been attracting attention from the country's private sector and is overall seen as an important investment opportunity.

- However, investment will need to be considerably scaled up to achieve clean energy goals. In light of the country's immense clean energy investment needs, the Philippines will likely have to tap and diversify financing sources as well as rethink the use of public finance. In particular, using development resources (including ODAs) in a more catalytic way (e.g. through blended finance or other de-risking mechanisms) to leverage private investment, there is great potential for impact but remains overall unexploited. Equally, FDI represents an important source of foreign equity, which could be deployed to accelerate the development of a robust pipeline of clean energy projects but yet remains at a very low level in the clean energy sector.
- In the energy efficiency sector, the Philippines has been taking important measures to encourage adoption of energy efficiency solutions. These are important and welcome actions, which help in signalling government's commitment to clean energy and improve market's confidence. That being said, there still remains a lot to be done to encourage the adoption of energy efficiency solutions and foster market development such as continue rolling out awareness raising campaigns, increase the stringency of MEPS, mitigate technology risks, develop incentive mechanisms for energy efficiency etc. More will have to be done to develop energy service companies (ESCOs), which have a great potential for further development in the Philippines. It also appeared clear from the discussion that access to finance remains a top barrier for energy efficiency in the country. While there exists some dedicated financing programmes, most of these are difficult to access in practice, particularly for MSMEs. Although efforts are underway, further support is clearly needed to increase LGUs uptake of energy efficiency solutions, which remains particularly low. Furthermore, access to finance remains limited for energy efficiency projects, which are often perceived as too risky or too small. Blended finance and Public Private Partnership (PPP) models are possible solutions to explore to accelerate investment in energy efficiency. Clamour for fewer documentary requirements was raised, calling for same few requirements for both large and small energy efficiency and renewable energy projects (e.g. rooftop PV installations) along with its bankability (permitting), land conversions, debt-service requirement, having high risk with low profit margins, and off-takers.
- In the same fashion, in the renewable energy sector, a number of important and welcome measures have been taken but are yet to result in a massive increase in renewable energy deployment as observed in other Asian countries. As it appears from the discussion, a number of issues could explain this discrepancy. For instance, participants cited a number of policy implementation and institutional coordination issues, which may dampen the effectiveness of certain measures such as EVOSS, GEOP GEAP, RPS or the UCME subsidy. Similarly, important capacity gaps remain at the local level, both in developing and financing renewable projects, and hence may call for additional training, e.g. on GEAP, GEOP, RPS, and how to do technical compliance for global financing facilities. In addition, on the finance side, domestic banks made clear they have both the appetite and liquidity to fund projects but yet lack a pipeline of bankable projects (both in terms of deal size and financial credentials) and can look into merchant financing. As a results, the country's (biggest) banks have mostly financed clean energy projects undertaken by the market's largest players (often part of integrated conglomerates), thereby leaving aside smaller independent power producers who oftentimes struggle to access limited recourse project finance.
- All in all, this first Workshop provided a wealth of information and important insights into the state of play of clean energy finance and investment in the Philippines and current challenges. This information will feed into the Roadmap and into the design of the second Workshop (tentatively scheduled for September 2022) wherein discussion will focus on identifying solutions to challenges identified as part of the first Workshop and OECD Roadmap Needs Assessment[1]. More information on the second Workshop will be circulated over the summer 2022.

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[1] As part of the Roadmap process, the OECD is conducting a Needs Assessment, which consists in a survey and consultations with developers and financiers to understand and quantify risks for clean energy finance and investment in the Philippines.