

## **Third Party Evaluator's Opinion on NEA-VECO Rural Electrification Project**

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### **Impact and Sustainability**

A serious effort in rural electrification in the Philippines started in 1969 with the establishment of the National Electrification Administration (NEA). From a low coverage of 18% of households, the rate of electrification increased over time to 56% in 1991, and by 2000, 68% of the 15.3 million households all over the country were using electricity. However, even with this temporal increase, the rate of electrification varies across regions and shows positive link with regional GDP. This electrification gap between the prosperous urban areas and the depressed rural areas is one factor that contributes to the problem of weak integration of the country that, in turn, slows down national development. It is in this light that the impact and sustainability of the NEA-VECO Rural Electrification Project should be considered.

The post evaluation report enumerated three key impacts. These are: (1) increase in employment opportunities and income of affected households; (2) improvement of the educational environment; and (3) improvement of convenience and increase in recreational activities. The impact on employment and income as well as the impact on the quality of life reinforce existing data that connect electrification with the value of economic activities in the locality. Electricity is not only an important input for widespread production and enhanced consumption but can also support poverty reduction programs in many regions. The impact on education, on the other hand, addresses the problem of inadequate educational facilities, including the lack of water and electricity, especially in remote areas. With electricity, schools in the rural areas are now able to enjoy better classroom environment that can enhance learning. Given more resources, the availability of electricity together with the provision of computers, schools may be able to access the instructional and informational wealth of the internet.

The expanded income and employment in the locality generated by this electrification project, in turn, can be a factor in the sustainability of the project by making sure of the financial health of Electric Cooperatives (ECs). However, since almost half of ECs included in the projects are not able to generate sufficient revenues to pay their loan obligations with NEA due to "their small business scales and difficulty reflecting distribution losses in their charges" there is a need to address this issue of sustainability.

To improve the financial performance of ECs, the government requires them to develop and implement a Rehabilitation and Efficiency Plan and a Performance Improvement Program. These requirements are steps in the right direction. In addition, the recommendation of giving incentives to ECs that are able to meet their targeted reduction in distribution losses should be given serious consideration. Aside from addressing the problem from the supply side, the issue of sustainability can likewise be tackled by expanding activities in the locality that can enhance demand for electricity. Specifically, this electrification project should be integrated with the overall rural development projects and loan programs of the JBIC and other funding agencies in the region. As a consequence, other rural development projects can support the financial viability of this project by creating greater economic activities in the locality that can increase the demand for electricity. In turn, this electrification project can sustain other rural development programs by providing a necessary input for all activities, economic and otherwise, at an affordable price.