

## Philippines (Watershed Rehabilitation Fund)

### *National Power Corporation Watershed Rehabilitation Fund*

#### SUMMARY

Watershed Rehabilitation Fund (Reforestation, Watershed Management, Health and/or Environment Enhancement Fund -RWMHEEF) being managed by the Department of Energy (DOE) to compensate communities hosting energy projects.

#### MATURITY OF THE INITIATIVE

Fee ongoing since mid 1990s (Department of Energy Act of 1992)

#### DRIVER

Government imposed "Social Responsibility" compensation from electricity generation companies to host communities of such generation facility.

#### STAKEHOLDERS

##### Supply

Communities in upper watershed hosting hydropower facilities

##### Demand

Electricity generation companies (HEP and others)

##### Intermediary

State Department of Energy (DoE)

##### Facilitator

Unclear

#### MARKET DESIGN

##### Service

Water flow regulation and sedimentation reduction

##### Commodity

Land use activities must concern improvement of forest cover through:

*Improved Management Practices* through agroforestry and construction of erosion and flood control structural measures

*Reforestation for commercial plantations*

##### Payment Mechanism

Electricity producers must assign PhP 0.010 for every kilowatt-hour generated to three different funds:

- 1) Electrification Fund: For electrification projects in host communities: rural areas with a growing population
- 2) Development and Livelihood Fund: livelihood projects, including infrastructure projects that are meant to increase productivity
- 3) Reforestation, Watershed Management, Health and/or Environment Enhancement Fund (RWMHEEF): provision of basic needs of communities (other than electrification and livelihood), and improve environmental conditions where deemed necessary

These funds are then accessed by means of annual work plans submitted jointly by the HEP company and the local government to the DoE.

Projects eligible under the RWMHEEF must concern: i) Reforestation and Watershed Management, with the objective of improving either forest cover or resource management, ii) Health-related projects or iii) Environment Enhancement Related Projects, e.g. waste disposal (Rosales, 2003)



Rosales (2003) highlights that, another charge, the—"Universal Charge"- (its amount was yet to be determined in 2003), was to be imposed upon all end-users of electricity, including all self-generation entities. This charge will be used "partly for the rehabilitation and maintenance of watershed areas. In particular, the law specifies that PhP 0.0025 per kilowatt-hour sales shall be dedicated for such purposes."

### Terms of Payment

*From users:* imposed "social/environmental compensation" fee; providers (thought the local government) received funds to invest in livelihood improvements in their community. The amount of funds applied for cannot exceed the amount contributed by the local power company.

### Funds Involved

Under the RWMHEEF Fund, there have been a total of 349 projects, with a total disbursement of PhP 413,935,169 for 38 power plants, over a period of 8.5 years. The majority of the projects are found in Luzon, mainly in Metro Manila, corresponding to the number of power plants located per regional center. (Rosales 2003)

## ANALYSIS OF COSTS AND BENEFITS

### Economic

No information

### Environmental

Water quality improvements in the form of waste management controls. Reforestation projects included nurseries for afforestation and agroforestry and erosion and flood control structural measures. According to Rosales (2003) the final investment in watershed rehabilitation projects per se accounts only for 8% of investment made through these DoE Funds.

### Social

Most investments actually go to social benefits: more than half of the projects are either health-related, or water supply projects of the host communities (Rosales, 2003)

Communities obtain better infrastructure in the form of electrification, roads, pavement, etc. Funded activities to support economic activities include improving market access, irrigation systems, introduction of new economic activities such as aquaculture, vegetables, food production, training and capacity building, schools, better drainage infrastructure etc.

The National Power Corporation provides the communities affected by their power plants with free electricity and water. In return, the communities provide the labour counterpart for the building and maintenance of the water system.

Given that many of the communities hosting these projects have high poverty levels, these improvements are extremely important to improve their quality of life.

## LEGISLATION ISSUES

The watershed funds have been officially created by the Republic Act RA 9136 of 2001 (electric power industry reform act). [http://www.lawphil.net/statutes/repacts/ra2001/ra\\_9136\\_2001.html](http://www.lawphil.net/statutes/repacts/ra2001/ra_9136_2001.html)

Republic Act No. 9136: Electric Power Industry Reform Act of 2001, Implementing Rules and Regulations, Rule 29: "one centavo per kilowatt-hour of the total electricity sales" of all electricity generation companies shall be applied as "financial benefit of the host communities of such generation facility..."

The National Power Corporation (NPC) has also a "list of obligations for energy-generating companies to invest in environment-related projects in their area of operations, which would answer for the sustainability of the energy project. The environment-related projects under the RWMHEEF are over and above the NPC list." Rosales, 2003

## MONITORING

Monitoring plays an important role, and although it is specified in the requirements, compliance has been very poor so far. (Rosales, 2003)

## MAIN CONSTRAINTS



*bureaucracy and lack of information.* The impact of benefits could be maximised if more people are made aware of the existence of these projects, and if government agencies were more coordinated in their efforts to spread the benefits throughout the widest range of beneficiaries possible.

### **MAIN POLICY LESSONS**

The three funds of the Department of Energy were created to increase social and political acceptance of energy projects by their host communities, and NOT as an incentive for environmental management with view to benefit hydropower production, In this way, it is therefore expected that the projects being funded are those that can create more visible improvements to the livelihoods of these poor upland communities. At the same time, the municipalities, for political reasons, have also an interest in implementing projects that can deliver short-term social development and address the most pressing needs of their citizens.

In this way, it is not surprising that most of the funding from this initiative had mainly been allocated to projects related to infrastructure, water supply and waste management instead of watershed rehabilitation.

An important lesson is that environmental investments are difficult to come by unless basic social services of communities are met.

### **OTHER INFORMATION**

#### **CONTACT**

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#### **REFERENCES**

Rosales, Rina Maria P. 2003. Developing Pro-poor markets for environmental services in the Philippines. International Institute for Environment and Development, London.  
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#### **LINKS**