ADB

Validation Report

Reference Number: PVR–204
Project Number: 37752
Loan Number: 2282
December 2012

Philippines: Power Sector Development Program

Independent Evaluation Department

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
DOE	–	Department of Energy
DOF	–	Department of Finance
DSCR	–	debt service coverage ratio
ERC	–	Energy Regulatory Commission
IMO	–	independent market operator
NPC	–	National Power Corporation
PCR	–	program completion report
PSALM	–	Power Sector Assets and Liabilities Management Corporation
TransCo	–	National Transmission Corporation
WESM	–	wholesale electricity spot market

NOTE

In this report, "$" refers to US dollars.

Key Words

asian development bank, cluster program, electricity, energy sector development, independent evaluation department, lessons, performance evaluation, philippines, power sector restructuring

The guidelines formally adopted by the Independent Evaluation Department (IED) on avoiding conflict of interest in its independent evaluations were observed in the preparation of this report. To the knowledge of IED management, there were no conflicts of interest of the persons preparing, reviewing, or approving this report.

PROGRAM BASIC DATA

Project Number:	37752	**PCR Circulation Date:**	Aug 2010	
Loan Number:	2282	**PCR Validation Date:**	Dec 2012	
Program Name:	Power Sector Development Program			
Country:	Philippines		**Approved** ($ million)	**Actual** ($ million)
Sector:	Energy sector development	**Total Program Costs:**	750.00	750.00
ADB Financing: ($ million)	**ADF:** 0.00	**Loan:**	450.00	450.00
	OCR: 450.00	**Borrower:**	0.00	0.00
		Beneficiaries:	0.00	0.00
		Others:	0.00	0.00
Cofinancier:	JBIC	**Total Cofinancing:**	300.00	300.00
Approval Date:	8 Dec 2006	**Effectiveness Date:**	11 Mar 2007	19 Dec 2006
Signing Date:	11 Dec 2006	**Closing Date:**	30 Jun 2009	30 Jun 2009
Project Officer:	Y. Zhai	**Location:**	ADB headquarters	
Validator:	C. Brown, Consultant	**Peer Reviewer:**	K. Hewitt, Evaluation Specialist, IED2	
Quality Reviewer:	C. Kim, Principal Evaluation Specialist, IED2	**Director:**	H. Hettige, IED2	

ADB = Asian Development Bank, ADF = Asian Development Fund, IED2 = Independent Evaluation Department (Division 2), JBIC = Japan Bank for International Cooperation, OCR = ordinary capital resources, PCR = program completion report.

I. PROGRAM DESCRIPTION

A. Rationale

1. The Country Strategy and Program, 2005–2007 of the Asian Development Bank (ADB) for the Philippines identified power sector restructuring as one of the main actions that would ease constraints on the fiscal imbalance of the Government of the Philippines and the poor investment climate in the power sector.[1] With earlier ADB support for the Power Sector Restructuring Program implemented in 1998–2002,[2] the government had been successful in setting in place the legal and regulatory framework, and unbundling the power generation and transmission functions required for the working of a competitive market. However, the restoration of financial viability in the power sector,[3] the substantial privatization of the power generation assets of the National Power Corporation (NPC), and the selection of a transmission system concessionaire were not achieved to a significant extent under the earlier interventions. To continue the necessary policy reforms and institutional enhancements, the government requested ADB support, which ADB provided through the Power Sector Development Program (the program).

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[1] ADB. 2005. *Country Strategy and Program: Philippines, 2005–2007*. Manila.

[2] ADB. 2004. *Completion Report: Power Sector Restructuring Program in the Philippines*. Manila. (Loan 1662-PHI: Power Sector Restructuring Program, for $300 million, approved on 16 December 1998).

[3] In spite of the government's tax reform measures (to broaden the tax base, increase tax rate, and strengthen tax administration), the NPC requirement for government guarantees on its debt obligations and its liabilities with respect to contracts with independent power producers were a serious drain on fiscal resources.

B. Expected Impact

2. The expected long-term impact from the program was a financially sustainable, efficient, and secure power supply system that arrests the drain on government finances and minimizes the risk of power shortages. To this end, the program was to contribute to (i) fiscal consolidation of the government with a decline in national government debt, (ii) reduced dependence on commercial borrowing, and (iii) eased debt servicing costs. Large-scale privatization and the introduction of a competitive electricity market would help achieve a more secure power system.

C. Objectives or Expected Outcomes

3. The immediate outcome expected from the program is the consolidation of the power sector restructuring process. ADB adopted a cluster approach for the program.[5] The two subprograms under the program cluster involved 2-year time horizons. Subprogram 1, which is the subject of this validation, covered 2007−2008 while subprogram 2 was tentatively for 2009−2010. The objectives of subprogram 1 were to (i) provide financial assistance, through a program loan, to help the government meet part of the power sector restructuring costs; (ii) establish the necessary conditions for substantial progress in the privatization program under subprogram 2; (iii) improve confidence in regulatory performance; and (iv) ensure a smooth transition to competitive markets.

D. Components and Outputs

4. Table 1 provides a summary of program outputs as envisaged at appraisal.[6] According to the program completion report (PCR), subprogram 1 results at the output level were mixed. Progress was made in terms of large-scale privatization and the introduction of a competitive electricity market. Major reforms implemented from 2006 to 2008 included the following: (i) the start of commercial operations of a wholesale electricity spot market (WESM) on 26 June 2006; (ii) the award of a concession for the National Transmission Corporation (TransCo) in December 2007; and (iii) privatization of nearly 60% of NPC's generating assets by December 2008. At loan closing in June 2009, a number of reform measures still needed to be implemented, the most salient being (i) implementation of the open access and retail competition, (ii) appointment of the independent power producer administrator, and (iii) appointment of the independent market operator (IMO).

Table 1: Achievement of Subprogram 1 Output Targets

At Approval (2006)	At Completion (2010)
1. Ensuring the financial viability of the power sector	
Debt service coverage ratio (DSCR) of 1.0 achieved in the operations of the Power Sector Assets and Liabilities Management Corporation (PSALM) from 2009 onward	Not achieved. The DSRC was not achieved in 2009. PSALM is implementing a liability management program to enable it to achieve a DSCR of 1.0 by 2010.
2. Strengthening the regulatory framework for the sector	
Institutional capacity and financial autonomy of the Energy Regulatory Commission (ERC) strengthened by the end of 2008 Regulatory framework for wholesale	Partly achieved. Appeals and complaints against ERC's rulings have dropped significantly and ERC's improved institutional capacity has drawn more private sector investors. ERC's institutional capacity was strengthened. It has issued necessary rules and regulations for the wholesale competitive market,

[5] ADB. 2006. *Report and Recommendation of the President to the Board of Directors: Proposed Program Cluster and Loan to the Republic of the Philippines for the Power Sector Development Program*. Manila.
[6] ADB. 2010. *Completion Report: Power Sector Development Program in the Philippines*. Manila.

At Approval (2006)	At Completion (2010)
competition completed by mid-2006	performance-based regulations for transmission and distribution, and retail competition. However, the ERC budget still depends on budget allocation.
3. Restructuring the market toward competition	
Wholesale electricity spot market (WESM) operations started in Luzon in July 2006, accounting for at least 10% of total sales WESM operations expanded to the Visayas grid by the end of 2007	Partly achieved. WESM operations started in Luzon in July 2006 and accounted for about 15% of total sales in 2009. In the Visayas, WESM trial operations started in May 2009 but commercial operations could not start due to power shortages in the Visayas grid. Commercial operations are now expected to be launched in the first half of 2011.
Consumer choice program for Time-of-Use rates started in 2007 for consumers of 1 megawatt (MW) or higher	Achieved. The Customer Choice Program was initiated in January 2007 and extended to all ERC franchise areas in January 2010.
4. Promoting private sector participation in the power sector	
Significant part of the NPC's eligible generation assets (at least 30%) sold by the end of 2008	Achieved. By the end of 2008, 2,172 MW of generation capacity had been privatized.
The rest of NPC's eligible generation assets sold by the end of 2010	Achieved. By May 2010, 3,365 MW of generation capacity, or 91% of total eligible assets for privatization in Luzon and the Visayas, had been privatized. Five independent power producer (IPP) administrators (for 2,146 MW, or 44% of the contracted capacity of the IPP contracts for Luzon and the Visayas) had been appointed.
National Transmission Corporation (TransCo) concession awarded by the end of 2008	Achieved. TransCo concession was awarded in December 2007.
5. Improving consumer welfare and protection	
The rights and obligation of consumers promulgated by the end of 2005 Adequate social protection mechanism for the poor implemented by the end of 2007	Partly achieved. This is slowly being achieved. ERC studied lifeline rates for poor consumers. Lifeline rates have been approved for all distribution utilities. To give more protection to vulnerable consumers, ERC in December 2009 proposed changes in some provisions of the Magna Carta for Residential Electricity Consumers.

NPC = National Power Corporation.
Source: ADB. 2010. *Completion Report: Power Sector Development Program in the Philippines*. Manila.

E. Provision of Inputs

5. The government required about $9.2 billion in financing for the power sector during 2006−2010.[7] A single tranche ADB loan under subprogram 1 was to cover $450 million of that amount. After the effectivity of ADB's program loan, the Japan Bank for International Cooperation approved cofinancing of $300 million in February 2007. This loan reduced government and/or Power Sector Assets and Liabilities Management Corporation (PSALM) commercial borrowings.

6. ADB also funded consulting services to assist the Department of Energy (DOE) and the Philippine Electricity Market Corporation for studying governance issues related to establishment of the IMO. DOE intends to appoint the IMO, on the basis of the study, in the first half of 2011.

[7] At appraisal (August 2006), identified financing sources to support power sector reform from 2006 to 2010 totaled $9,171 million. These included financing from the following: ADB for $450 million; universal charges for $3,162 million; government budget and/or commercial borrowings for $1,889 million; and PSALM commercial borrowings for $3,670 million.

F. Implementation Arrangements

7. The borrower for the program loan was the Government of the Philippines, represented by the Department of Finance (DOF). The DOF was also the executing agency responsible for the overall implementation of the program, with the DOE as implementing agency responsible for the monitoring of program implementation activities and reporting. The government created the Energy Executive Committee to implement the program. It had representatives from the DOE, PSALM, Philippine Electricity Market Corporation, NPC, TransCo, the National Electrification Administration, and the Philippine National Oil Company.

8. The ADB loan for subprogram 1 was signed on 11 December 2006. It became effective on 19 December 2006. In spite of a number of delays in policy actions, as discussed herein, the loan was closed as scheduled on 30 June 2009. All 23 policy actions for effectiveness of subprogram 1 were fulfilled before loan approval (PCR, Appendix 3). Of 15 policy actions for implementation under subprogram 1, 12 were reportedly fulfilled at completion (PCR, Appendix 3). Those actions not fully accomplished relate to (i) the expansion of the WESM to Visayas, and (ii) establishment of effective safety nets and consumer protection (PCR, paras. 11–12). Given that subprogram 2 was not pursued—although the government reportedly achieved some progress in implementing policy actions envisaged before subprogram 2—means that the program's overall objectives also fell short of expectation.[8]

9. The program loan proceeds were used to finance the full foreign exchange costs of items produced and procured in ADB members, excluding local duties and taxes and ineligible items. The government certified that the expenditures were made for the purposes specified in the loan agreement. The loan took effect on 19 December 2006. It was disbursed promptly on 20 December 2006, as provided in ADB's simplified disbursement procedures.

10. In respect to accounting, auditing, and reporting, the PSALM was required to furnish ADB with certified copies of audited consolidated financial statements, including the financial statements of NPC and TransCo, not later than 6 months after the end of each related fiscal year.

11. Numerous risks were identified upfront, which include the following: (i) weakening of political will in the executive and legislative branches of the government to proceed with the restructuring, (ii) political and judicial interference with the decision making of the Energy Regulatory Commission (ERC), (iii) lack of investor interest, (iv) needed tariff increases contested in courts by consumer groups, (v) delays in Congress, (vi) political resistance at local level to consolidation of electric cooperatives, and (vii) inability of the parties involved to arrive at mutually acceptable solutions to market, restructuring, and wholesale competition. However, to address such risks was the prime reason for ADB to have supported the program.

II. EVALUATION OF PERFORMANCE AND RATINGS

A. Relevance of Design and Formulation

12. The PCR assessed the program as *highly relevant* (PCR, para. 16) as it was in line with the development goal of achieving a financially sustainable, efficient, and secure power supply that will stop being a drain on government finances. The PCR indicated that the program proved to be a significant intervention in the power sector in achieving this goal. It claimed that

[8] Most importantly, universal charges for stranded debt and cost were not introduced.

the huge success of privatization and improvement in the credibility of the ERC during implementation attests to its high relevance.

13. This validation considers that the use of a cluster program design (comprising two subprograms) was appropriate and anchored on lessons from ADB's experiences in the country. It would provide flexibility to defer subprograms wherein the design could not be fully defined at appraisal.[9] However, a decision was made by the government not to pursue subprogram 2. This caused the government to defer its key policy actions, including the appointment of an IMO for WESM, the start of collecting universal charges for stranded debt and cost, and the appointment of independent power producer administrators (para. 13). As a result, the PSALM could not achieve a debt service coverage ratio (DSCR) of 1.0, which was required policy action by 2009 (PCR, para. 25). The program design resulted in limited value-addition. As such it did not deserve the *highly relevant* rating. Taking into account, the partial nature of program achievements, and the still evolving government stance on policy reforms as seen in the cancellation of subprogram 2, this validation downgrades the program to *relevant.*

B. Effectiveness in Achieving Project Outcomes

14. The PCR assessed the program as *partly effective* and discussed the effectiveness in achieving program outcomes only briefly. Furthermore, the program design and monitoring framework did not provide specific monitorable outcome indicators. In subprogram 1, substantial progress was made regarding privatization of generation (with over 90% of asset privatization) and introduction of wholesale competition (PCR para. 17 and Appendix 1). On the other hand, the expansion of WESM to the Visayas grid, consumer protection, and safety nets were slow in developing. Ensuring financial viability of the power sector remains a challenge in the short and medium terms, while electricity rates in the Philippines remain high compared with other countries in the region, mainly due to the weak retail competition that this program intended to promote. Further reforms intended to be carried out through the aborted subprogram 2, had it been carried through, would most likely have provided for greater effectiveness of the program. Overall, this validation concurs with the PCR rating of *less than effective*.

C. Efficiency of Resource Use in Achieving Outputs and Outcomes

15. The PCR assessed the program as *partly efficient,* and discussed the program efficiency in terms of factors shown in Table 1. Strengthening of the regulatory framework in the power sector during implementation of subprogram 1 produced substantial private investments and revenue (PCR, para. 18). With large-scale privatization and introduction of competitive wholesale electricity markets, the government's role has become that of a policy maker and sector planner; and the government's unsustainable subsidies have been eliminated and its debt reduced—which could free up financial resources for social services and infrastructure.

16. Notwithstanding, there are still key reform areas to be implemented to fully benefit from investments in power sector reform. For example, financial viability, which is vital to fiscal consolidation, still needs to be ensured. The PSALM has not been able to achieve the required DSCR because of the historical debt burden and delayed approval of the universal charges by the ERC. Another area relates to increasing electricity market competition. The WESM has not been able to launch commercial operations in the Visayas grid (a required policy action by completion of subprogram 1). On the upside, this validation notes that PSALM is implementing a

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[9] The accomplishments of subprogram 1 were to be reviewed as it approached completion, and subprogram 2 was to be defined as necessary.

liability management program that would improve the DSCR. Considering the slow progress in reforms and the partial output achievements (at closing) under subprogram 1, this validation agrees with the PCR assessment of *less than efficient*.

D. Preliminary Assessment of Sustainability

17. The PCR assessed the program as *likely sustainable.* With the large-scale privatization and introduction of a competitive electricity market, the government's unsustainable subsidies to the power sector (except for electrification of unviable rural areas) have been eliminated and the government's debt reduced (PCR, para. 19). In addition to privatization and credibility of the power sector institutions, the electricity rate is key to sustainability (PCR, para. 20), which are still among the highest in Asia. The most effective way to bring these rates down to a more reasonable level is through further reforms that would increase market competition at the wholesale and retail levels. Meanwhile, several risks identified at program design are likely to continue and will make the power restructuring process an ongoing challenge. With the credibility of the ERC and success of privatization, and with the expected continued support from the government, ADB, and other development partners for continued power sector restructuring, this validation concurs with the PCR rating of *likely sustainable*.

E. Impact

18. The program has contributed to the fiscal consolidation of the government with a decline in national debt, reduced dependence on commercial borrowing, and eased debt-servicing costs (PCR, para. 23). With the large-scale privatization and introduction of a competitive electricity market, the country has also achieved a more secure power supply. On the other hand, two policy actions (i.e., ensuring financial viability of PSALM, increasing electricity market competition) in subprogram 1 were not fully accomplished during implementation (para. 16), although this validation recognizes that government agencies were continuing to develop the two policy actions at the time of program completion (mid-2009). Overall, to a certain extent the program achieved its stated impact of a financially sustainable, efficient, and secure power system that is able to stop being a drain on government finances while minimizing risks from power shortages. The PCR has not rated the program's impact, but provided sufficient information. Based on the PCR's comments on impact, it is considered that the PCR would rate program impact as significant. This validation rates program impact as *significant*.

III. OTHER PERFORMANCE ASSESSMENTS

A. Performance of the Borrower and Executing Agency

19. In compliance with loan covenants and conditions, the DOF as the borrower and executing agency, coordinated effectively with stakeholders, supervised program implementation, submitted progress reports periodically, and kept ADB informed about the progress in implementation (PCR, para. 14). Notwithstanding the delays in implementing some of the reform programs, this validation agrees with the PCR rating of *satisfactory*.

B. Performance of the Asian Development Bank

20. ADB supported the design and formulation of the program at a critical time when the government really needed support. As the lead financing agency in the sector, ADB has worked closely with other development partners in the power sector in support of the program, and has continued to conduct policy dialogue, and review and monitor power sector reform and

privatization activities. The proximity of ADB headquarters to the DOF allowed for regular coordination on key issues during program implementation (PCR, para. 15). In addition to the program, ADB funded a consultant to assist the DOE in appointing an IMO. This validation agrees with the PCR rating of *satisfactory*.

C. Others

21. Environmental safeguards and gender issues did not form part of the program. Governance was the program's main thrust as related through its program objectives and outputs. In particular, some ADB stakeholders expressed anticorruption concerns during program design and formulation. However, anticorruption issues were not addressed in the PCR; and it is understood that no corruption-related issues arose during the course of the program. Meanwhile, the PCR contains no report on the government's assessment of the project. However, considering that the program has greatly assisted the government on its path to fiscal consolidation, it is reasonably assumed that the government is generally satisfied.

IV. OVERALL ASSESSMENT, LESSONS, AND RECOMMENDATIONS

A. Overall Assessment and Ratings

22. The PCR assessed the program as a whole *successful.* Design of the program was consistent with the long-term vision of the government for power sector development in the country and consistent with ADB's country strategy and energy policy. Under the program, substantial progress was achieved in strengthening power sector institutions and privatizing sector assets. These achievements have contributed to the fiscal consolidation of the government. With continued diligence in fiscal management of the power sector and donor commitment to support further sector reforms, it is likely that the reform process and its benefits can be sustained. Notwithstanding the successes, there are still key reform areas to be implemented to fully benefit from investments in power sector reform. The pursuit of the canceled subprogram 2 would have provided for the greater effectiveness of the program. Financial viability is still a challenge for the short and medium terms. Overall, this validation rates the overall performance of the program as *less than successful* (Table 2).

Table 2: Overall Ratings

Criteria	PCR	IED Review	Reason for Disagreement and/or Comments
Relevance	Highly relevant	Relevant	The cancellation of subprogram 2 reduced the relevance of the program, which led to deferment of key policy actions including the introduction of universal charges for stranded debt and cost (para. 13).
Effectiveness in achieving outcome	Partly effective	Less than effective	
Efficiency in achieving outcome and outputs	Partly efficient	Less than efficient	
Preliminary assessment of sustainability	Likely sustainable	Likely sustainable	
Overall assessment	**Successful**	**Less than successful**	The program is rated *less than successful* (para. 22).
Borrower and executing agency	Satisfactory	Satisfactory	
Performance of ADB	Satisfactory	Satisfactory	

Criteria	PCR	IED Review	Reason for Disagreement and/or Comments
Impact	Not rated	Significant	The PCR has not rated the impact. However, considering the PCR comments on impact, this validation rates program impact as *significant* (para. 18).
Quality of PCR		Satisfactory	

ADB = Asian Development Bank, IED = Independent Evaluation Department, PCR = program completion report.
Note: From May 2012, IED views the PCR's rating terminology of "partly" or "less" as equivalent to "less than" and uses this terminology for its own rating categories to improve clarity.
Source: ADB Independent Evaluation Department.

B. Lessons

23. The PCR reported on the benefits obtained from the previous ADB assistance to the Philippine power sector, and on the design, implementation, and results of the program. It did not identify any lessons arising from the program experience. One lesson that this validation gathered from this assessment relate to the design of a cluster program. While it provides the benefit of flexibility (i.e., deferring subprograms wherein the program design cannot be fully defined at appraisal), care must be taken to maximize the achievement of critical objectives even if ongoing subprograms are canceled.

C. Recommendations for Follow-Up

24. The Independent Evaluation Department (IED) validation agrees with several PCR recommendations paraphrased below:

(i) **Future monitoring.** The financial situation of PSALM remains a key concern. The implementation of its liability management program should be monitored closely, as this will significantly affect the country's fiscal situation. Key milestones to follow up are: the timing of the introduction of universal charges for stranded debt and cost, and PSALM's achievement of a DSCR of 1.0 (PCR, paras. 26–27).

(ii) **Covenants.** The covenants in the program loan should retain their present form during the repayment period of the program loan, particularly with regard to PSALM's DSCR.

(iii) **Consumer protection.** The ERC should strengthen the mechanism for protecting the welfare of consumers, particularly the very poor (PCR, para. 28).

(iv) **Additional assistance.** The assessment of key sector issues and the progress of the power sector restructuring indicates that additional assistance may be considered in the following strategic areas: (i) continued support for power sector restructuring, mainly through the private sector lending window; (ii) strengthening of electricity distribution sector through public sector operations; (iii) promotion of renewable energy and energy efficiency through public and private sector partnership; and (iv) targeted support for the rural poor, particularly in Mindanao (PCR , para. 29).

V. OTHER CONSIDERATIONS AND FOLLOW-UP

A. Monitoring and Evaluation Design, Implementation, and Utilization

25. ADB established the design and monitoring framework, which indicates the key activities, outputs, outcome, and impact to be monitored. ADB closely monitored program implementation through regular review of progress reports and constant coordination with the DOF and DOE offices. The government also kept ADB informed of the outcome of policy discussions with other multilateral and bilateral agencies that had implications for implementation of the program. The DOE was required to submit to ADB (i) semi-annual progress reports on program implementation, and (ii) a subprogram 1 final review report (actually submitted 28 April 2010). In particular, given the need to closely monitor the financial recovery of the power sector, PSALM was required to furnish ADB with certified copies of PSALM's audited consolidated financial statements, including the financial statements of NPC and TransCo, not later than 6 months after the end of each related fiscal year. From this review of the PCR, monitoring of the program was *satisfactory*.

B. Comments on Project Completion Report Quality

26. The PCR is well written, clear, concise, and consistent with the PCR guidelines (Project Administration Instructions 6.07). The PCR adequately reported on the requirements and status of social issues covering the rights of all consumers, lifeline electricity rates for poor consumers and legal ways of protecting the vulnerable. PCR information was consistent with the DOE progress reports, ADB project performance reports, loan agreement, and other available program documentation. This validation is of the view that the PCR should have addressed corruption since it was a subject of some attention during program design and preparation. Notwithstanding the latter, the PCR and available documents were adequate for validation of the PCR. This validation agrees with the PCR recommendations in Section IV. C, paras. 26–29, and rates the quality of the PCR as *satisfactory*.

C. Data Sources for Validation

27. Data sources used in the preparation of this validation report included available program documentation such as ADB report and recommendation of the President (November 2006), loan agreement (December 2006), ADB program performance reports (January 2007 to August 2008), ADB project completion report (August 2010), DOE progress reports, records of ADB management review and staff review committee, summary of discussions at loan approval, loan review reports, and other available program documentation.

D. Recommendation for Independent Evaluation Department Follow-Up

28. Due to ADB's continuing significant role in the power sector in the Philippines, and possible sector lessons for ADB-wide operations, IED may consider the PCR's recommendation for the preparation of the program performance evaluation report. The program should be evaluated preferably after the following three actions, originally envisaged to be achieved by 2011, are actually achieved: (i) completion of the privatization program, (ii) the WESM commercial operations are started in Visayas, and (iii) the DOE appoints the IMO for WESM.