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Lighting up the urban poor in Metro Manila

How has the neoliberal reform of the energy sector impacted electricity distribution in low-income settlements of the Philippine capital city?

Morgan Mouton

Latts, Université Paris-Est

Contact: moutonm@enpc.fr

Working papers du Programme
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wppoleville@gmail.com
<http://blogs.sciences-po.fr/recherche-villes/>

Abstract:

In 2001, the Government of the Philippines signed the *Electricity Power Industry Reform Act*, and consequently introduced a reform that deeply impacted the energy sector. This new regulatory framework explicitly drew upon the so-called "neoliberal" model inspired by the British experience and its replica (in Australia or New Zealand for instance). It unbundled the sector in order to allow for an increased participation of the private sector, while establishing an independent regulator to ensure the correct functioning of the market. This paper argues that the reform was primarily driven by the need to secure electricity provision, and that consequently the question of access to electricity in urban poor communities was largely ignored. The central state withdrew its attention from the issue of electrification, and the empowerment of new actors at the local level can be observed: city governments and local authorities are more and more involved in the decision-making process, thus opening the way to participation from civil society. This new arrangement of actors involved in low-income areas' access to electricity has an impact on the distribution utility's behaviour. It now adopts more targeted electrification schemes in cooperation with local actors, which allows the company to both increase end-users' support and externalise a part of its costs, and designs more inclusive policies for this category of consumers.

Beyond the traditional debate over the benefits and shortcomings of the neoliberal regulatory framework, this paper raises the issue of its consequences on the urban poor of Metro Manila: the policies targeting them are now more localised, but this 'territorialisation' comes with a fragmentation of the metropolitan space and the creation of new territorial inequalities.

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1. Introduction

In the aftermath of the power crisis that occurred in the Philippines at the end of the 1980's and through most of the 1990's, a reform of the sector's industry was drafted in the hope to shelter the country against the lack of electricity supply it had been experiencing. This choice of a new model of regulation placed the Philippines at the centre of the heated debate between the advocates of the so-called "neoliberal" model of regulation, and those who insist on the irreplaceable social function of state-owned actors in this critical industry (McDonald, 2009). Characterizing the Philippine reform as "neoliberal" can be justified accordingly: first, the reform was encouraged by actors that have long been associated with this school of thought, through advisory work and loan requirements, notably the World Bank (WB) (Bayliss, Fine & Van Waeyenberge, 2011) and the Asian Development Bank (ADB)¹. Second, the content of the reform is fully in line with what Gatwick and Eberhard (2008) have termed the "textbook model of electricity reform"². The country was indeed the first in the region to implement a reform based upon the British model of sector unbundling. The *Department of Energy* (DoE) ordered the dismantling of the State-owned *National Power Company* (NPC) that used to be the sole energy producer, in charge of transmission as well, and the selling of its assets to the private sector. The Department also created an independent agency in order to act as regulator: the *Energy Regulatory Commission* (ERC). This institution holds quasi-judicial powers, sets the retail electricity rates and exerts surveillance over the actors while settling conflicts when they occur. It is notable that the distribution utility (DU) covering the area of Metro Manila, the *Manila Electric Company* (Meralco), was already a private company (see Box 1). Large consumers can now purchase electricity directly from power producers, with the creation of a *Wholesale Electricity Spot Market* (WESM) in charge of assuring all parties of the transactions' transparency.

The *Electricity Power Industry Reform Act* (EPIRA) that reshaped the sector in the early 2000's was clearly designed with two objectives on top of the agenda: security of supply and controlled tariffs. While the question of supply has been answered - although the country's energy mix might create future difficulties in this regard³ - the Philippines is known as the ASEAN country that has the highest electricity rates (Joint

1 The well-known 1993 paper *The World Bank's role in the electric power sector: policies for effective institutional, regulatory, and financial reform* received a lot of attention from Philippine policymakers. Beyond their mere influence, these two institutions had a more direct involvement in the reform with two loans that set precise requirements: a 1984 WB loan of USD 300 million required the adoption of laws on privatisation (that came to be Presidential Decrees 2029 & 2030), and a 1998 ADB loan (supported by the WB and the IMF) of another USD 300 million targeted more specifically the electricity sector. The second part of it was not made available before the EPIRA was adopted (Bello, 2004).

2 Gatwick & Eberhard identify 9 steps to the reform: Corporatisation, Commercialisation, Energy Legislation, Establishment of an (independent) regulator, Independent Power Producers (IPPs), with long-term Power Purchase Agreement (PPA), Restructuring (unbundling), Divestiture of generation assets, Divestiture of distribution assets and Competition.

3 As of 2012, the Philippine generation capacity relies on coal (30%), hydro (22%), oil (18%), natural gas (18%), geothermal (11%), solar and biomass representing less than 0.7% altogether (DoE, 2013).

Chambers of Commerce of the Philippines, 2010)⁴. The debates are still very polarised around these issues. However, this paper aims at examining the reform's consequences beyond them, looking at the "side-effects" of the reform.

Box 1 - The Metro Manila distribution utility: Meralco

The company dates back to the introduction of electricity in the Philippines, and its trajectory follows the national history. It was originally a privately owned Spanish group – *La Electricista* – and American investors took it over later. At that time it covered activities of distribution, but also of generation. Its existence was not threatened in the 1930's, when the National Power Corporation (NPC or NAPOCOR) came to existence. The two entities coexisted and jointly serviced the capital region. It is in 1962 that Meralco's ownership became Philippine, when it was taken over by the Lopez family – an influential family that became very associated to this business. The weight of the company in the local business landscape was already considerable: it was the first Philippine company ever to be worth more than one billion pesos in 1969. While so far the group had always been privately owned, the Marcos years saw its nationalisation (1972). It is at this time that the Philippine State decided to work towards a monopoly in the generation sector of the industry for NPC, thus triggering the specialisation of Meralco in electricity distribution. After the fall of the regime with the People Power Revolution, the company was given back to the Lopez family (Sharma, Madamba & Chan, 2004). It is only recently, with the selling of the largest part of their shares in Meralco (they now own 3.9% of it only), and with the stepping down of Manuel Lopez as the Company's Chairman, that the family disengaged itself from the business (The Inquirer, 30/05/2012)

While the EPIRA brought profound modifications to the electricity industry, a lot of questions appear to have been unplanned for. An important question that was left unanswered was the case of electricity provision for the urban poor. This lack of interest is all the more striking that these populations represent a significant component of the Philippine society. The National Statistical Coordination Board (NSCB) estimates that only 2.6% of the population in the National Capital Region (NCR) lives in poverty (to be compared with 18.9% at the national level)⁵. However, this figure does not grasp the full socioeconomic reality of the Philippine capital city, since it only takes into account extreme poverty: families leaving with less than PHP20.344 per year (€27,3 per month for the whole family⁶). The populations living in precarious conditions, in untitled areas, are more numerous. It is estimated that they represent at least one in ten inhabitants in Metro Manila (Porio, 2002 & 2012). This category of users was secondary for policymakers, and the issues specific to their needs were hardly provisioned for in the reform proposal. This blurred legal framework calls for interpretation from the actors, and requires compromises to be made. In this paper, we suggest exploring the reform and its long-term effects by reintroducing into the analytic framework this category of users, their claims and the extent to which they were addressed or not after the reform's introduction. We believe this will increase our understanding of evolving power relations between stakeholders and the way it shapes the sociospatial distribution of electricity services across Metro Manila.

4 However, note that this ranking can be questioned since it does not take into account the high level of subsidies present in other countries (Indonesia, Cambodia for instance).

5 <http://www.nscb.gov.ph/poverty/>, last accessed 02/02/2014.

6 Exchange rate from Philippine Peso (PHP) to Euro (€) is extracted from the central bank of the Philippines (<http://www.bsp.gov.ph/statistics/sdds/ExchRate.htm>) on April 22nd, 2014.

This paper will first give a few elements in order to contextualise the reform and understand its *raison d'être*, looking at the challenges faced by the Philippines and taking into consideration the ideological orientations of policymakers. The second section will argue that the sector's reform has interacted with the decentralisation process going on at the moment in the country: the two phenomena have led to the emergence of local actors in energy policies. Since the reform was put in place, energy issues have therefore been more local and territorially embedded, as far as the urban poor are concerned. Finally, this new configuration has offered more autonomy to the DU, thus enabling the creation of new programs allowing Meralco to adopt a more or less repressive stance when dealing with poor communities in Metro Manila.

2. Method and data.

In order to look at the implementation of electrification programs in urban poor communities, two areas of Metro Manila were selected in Quezon City: *barangay*⁷ Payatas and *barangay* Pansol (see Map 2). Payatas is one of the major dumpsites of Metro Manila, and is home to one of the largest informal settlement in the metropolitan area, with an estimated 117,000 inhabitants in 2007 (Porio, 2008). While some areas of Payatas have benefitted from regularisation programs, it is still largely composed of untitled popular housing. The status of the land is mixed, with both public and private land. Pansol, on the other hand, is an example of a smaller community sheltering 725 families that was regularised in 1987, when the National Housing Authority (NHA) bought the land in order to redistribute to its inhabitants it in the form of individual lots. Most of the population is therefore eligible for receiving a proper electricity connection from the DU.

This work is based upon a fieldwork of 5 months in Metro Manila, during the spring semester of 2013⁸. Interviews were carried out with key DoE and ERC officials, with MERALCO executives and with stakeholders from civil society. Representatives from the administrations of these two urban poor communities were interviewed, and input was also collected from a handful of residents in order to corroborate the first findings.

⁷ Barangays are the lowest politico-administrative units in the Philippines.

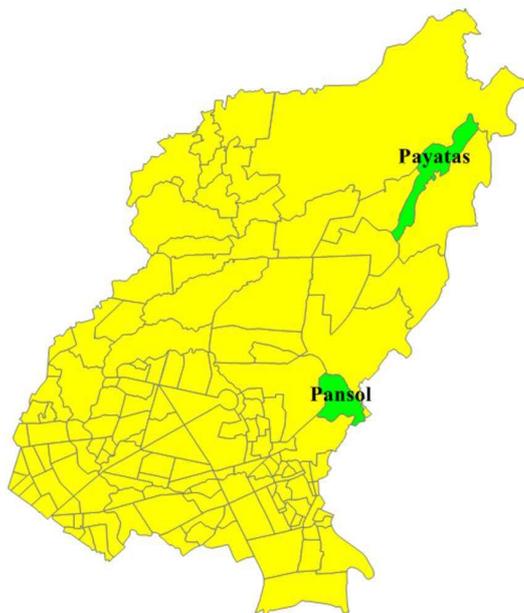
⁸ Morgan Mouton, 2013, "The Modernisation of the Philippine Electricity Sector. The emergence of new forms of governance: a negative impact on electrification of urban poor communities in Metro Manila?" Master thesis, Sciences Po Master programme Governing the large metropolis, Paris, Sciences Po, 78p. The author wishes to thank the Sciences Po master programme "Governing the Large Metropolis", as well as the Department of Sociology and Anthropology at the University Ateneo de Manila, where he was based during his fieldwork.

Map 1: Administrative map of Metro Manila showing the 17 local government units (Quezon City is highlighted in yellow)



Source: author.

Map 2: Administrative map of Quezon City, showing the *barangays* - Payatas and Pansol are highlighted in green



Source: author.

3. The evolution of the Philippine electricity sector between 1980 and 2001.

EPIRA's drafting was carried out in a particular context. It followed a decade characterised by electricity shortages – brownouts. It is of paramount importance to have this element in mind in order to understand the choices made by decision-makers. In this section, we explore the challenges linked to the security of electricity provision. In order to understand the present situation, but also to make an attempt at forecasting the future needs of the metropolis, attention will be paid to the demographic trends in the Philippine capital city. In the second part of this section, we will establish a chronology of the decisions that were made in order to address the problem of brownouts and explain why they eventually led to restructuring the electricity sector.

3.1. A challenging power crisis in the 1980's: a succession of brownouts.

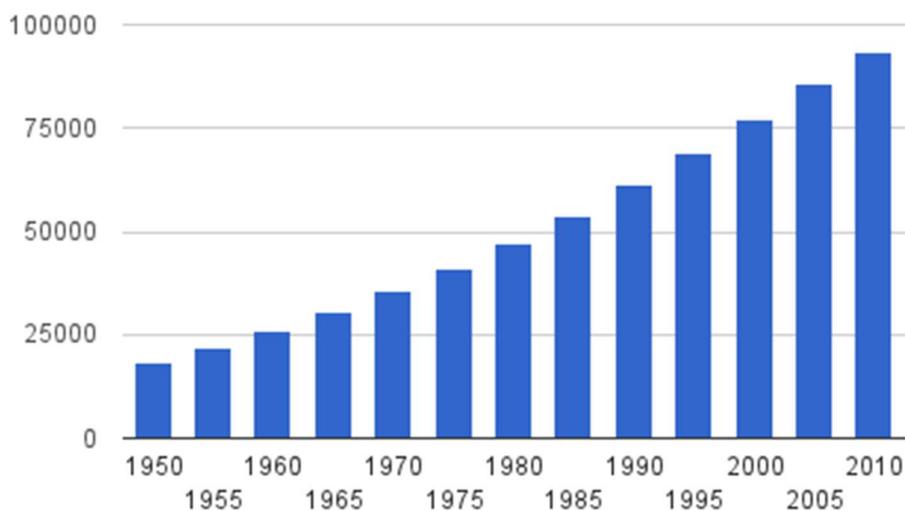
One of the main problems with electricity provision in emerging countries lies in demographics: the rapid increase of the population, notably in SouthEast Asia, exerts a real pressure on infrastructure and utilities in general, and electricity provision in particular (World Bank, 2005 & 2010). This observation is very true in the case of the Philippines where the growth rate was as high as 3.54 in the period 1950-1955. Consequently its population quadrupled between the years 1950 and 2000, and is now reaching more than 90 million inhabitants (see Graph 1).

Given the demographic trends at work, one understands how the electricity sector failed to catch up with demand, and how brownouts became more and more frequent during the 1980's and the beginning of the 1990's. The consequences for the economy were acute. These episodes of brownout could last for up to 10 hours everyday, and were the direct consequence of a lack of power supply: the demand exceeded the system's capacity by 48% in 1992. Industrial areas suffered from blackouts, while shopping malls were asked to shorten their opening time by two hours. The economic cost of this failure to meet demand was estimated at US \$1.6 billion – or 1.5% of the GDP – for the year 1992 alone (Henisz & Zelner, 2001). One has to bear in mind an element of context to appreciate the seriousness of the situation: the country was seeking to achieve high economic development and attract foreign investors. In the quest for Foreign Direct Investments (FDIs), this inability to provide businesses with a stable and reliable source of electricity certainly sent a bad signal to investors.

The demographic pressure is still a reality nowadays: while the total fertility rate (TFR) has been reduced in the recent years, it is still quite high – 3.1 births per woman in 2012, which is the highest for the ASEAN countries. It is indeed estimated that between 2000 and 2015, the country is making a jump from 80 to almost 100 million inhabitants (UNFPA, 2012). And if the overall population increase in the Philippines matters, it is also paramount to study its spatial distribution in order to assess its impact on Metro Manila. According to the National Statistical Office of the Philippines, in 2007 some 54% of the population was

located in urban areas⁹ and it is estimated that Philippine cities will have to absorb nearly 20 million inhabitants in the next 10 years (Porio, 2009, p. 11). Securing energy production is therefore a major challenge for policymakers in the country, and this preoccupation is fundamental to the sector's regulation.

Figure 1: Philippine Population (1950-2010) in 1,000



Source: UN Data (data.un.org)¹⁰

3.2. A growing pressure towards privatisation

In order to answer this problem of shortage of supply, officials took measures to improve the generation capacity of the electricity sector through the fast-tracking of several power plant projects. The urgency of the situation made it necessary to make huge investments. Unfortunately the Philippines lacked the financial capacity to fulfil that on a large scale. From 1993 to 1995, the government turned more openly to the private sector and initiated a tendency that would trigger the EPIRA a few years later. In order to facilitate the private ownership of power plants, a legal framework had already been adopted in 1990 with the 'Build-Operate-Transfer' law, and was amended in 1994. This recourse to the private sector was quite successful, if one considers that between 1992 and 1998 – the end of the crisis – the country's generation capacity was augmented by 5,000 MW: a 70% increase in these 5 years (Sharma, Madamba & Chan,

⁹ The current statistical category of "urban area" was established in 2003 and sets different criteria. Urban areas correspond to politico-administrative units, Barangays, that have a minimum of 5,000 inhabitants, as well as at least one establishment of providing work for more than 100 employees, five establishments with 10 or more employees, and where at least five facilities are within a two kilometres radius from the Barangay Hall.

¹⁰ United Nations, Department of Economic and Social Affairs, Population Division, World Population Prospects: The 2010 Revision, New York, 2011. Accessible at: <http://data.un.org/Data.aspx?q=growth+rate&d=PopDiv&f=variableID%3a47>, last accessed 28/08/2013

2004). It is quite clear that this power crisis durably affected the perception of the electricity sector by the elites: the public utility was considered as inefficient while private companies were depicted as the country's rescuers.

Evidently, the crisis put the reform of the sector on top of the decision-makers' agenda: to use Kingdon's expression (1984), it created a *window of opportunity*. By 1994, the Philippines had more than 40 contracts with Independent Power Producers (IPPs): more than the rest of the developing world as a whole (Woodhouse, 2005). While this issue was put on the agenda, policy-makers already had a solution in mind: the idea prevailed that the sector needed not only to be reformed, but also to be privatised. The DoE indeed discarded the idea of a reform without privatising the industry:

"... It will not raise private capital and cash...NPC would still be dependent on the government... there will still be subsidies, distortions and political interferences...we still have to deal with government bureaucracy...one government entity will be selling to another government entity"¹¹.

In this sense, the power crisis was determinant for the sector's reform. It revealed the need for a change in the industry, and oriented the future policies to be adopted.

3.3. Beyond the electricity sector: a national commitment to privatisation reforms.

The reform is embedded in a movement of privatisation of State assets initiated by President Ramos (1992 – 1998). This massive privatisation of state assets comprises notably: the Philippine Airlines (1992), the Oriental Petroleum and Mining Company, the Paper Industry Corporation of the Philippines, the Philippine National Bank, the National Steel Corporation (1994) as well as most telecommunication facilities (1995). The municipal water distribution utility covering Metro Manila, the MWSS, was also privatised in 1997. Concerning the electricity sector, privatisation had already begun, as the number of IPPs increased dramatically in order to face the power crisis. In addition, the State sold the last shares that it owned in Meralco in 1994 (Riedinger, 1995).

Indeed, it is remarkable that Ramos's term witnessed such a movement towards privatisation – and it is not incidental. To use the words of the former President, there was a will to develop a 'new paradigm of governance'. The idea that state-owned enterprises (SOCs) were poorly managed and suffered from negative political influences was very present in the Philippines. Indeed, several privatisation processes shed light to this malfunctioning of SOCs, with the notable example of water distribution for instance. The public MWSS offered rates of PHP 8.78 per cubic metre prior to its privatisation, and the two winning concessionaires, *Maynilad* and *Manila Water*, offered respectively PHP 4.98 and PHP 2.32. This experience convinced the public opinion of the benefits of privatisation, and comforted the government in its

¹¹ DoE (2001), quoted in Sharma, Madamba & Chan (2004), p. 7.

position.¹² Another element that explains this massive recourse to privatisation is exogenous, and lies in the global discourse that, at that time, encouraged such practices. The GoP, like many other countries of the emerging world, was indeed in close contact with the International Monetary Fund (IMF) and the World Bank (WB). The financial pressure was quite important for the Philippines at that time: if one takes the year 1998, the deficit for the GoP amounted to PHP 40 bn, while the deficit for the entire public sector was PHP 73.7 bn.¹³

After the end of the Ramos era in 1998 the GoP was still committed to privatisation and did not reverse the tendency. However after criticisms regarding the lack of transparency of the previous term¹⁴, the new President Estrada expressed the will to adopt a more legible approach:

“Deregulation and privatization will continue to be a commitment of the new administration, but with a stronger commitment to transparency and full disclosure specially for large flagship projects. Over the long term, our objective is to enable the private sector to fully build our basic infrastructure like power, water, transportation, and telecommunications, on a level comparable to the newly industrialized countries in our region.”¹⁵

To conclude this section on the reform's origins and main rationale, it is in a peculiar context that the reform of the electricity sector was carried out: one of financial pressure for the GoP, and one of massive privatisation of state assets as a governmental policy. In this context, the urban poor as a category of end-users were not taken into consideration by policymakers. It is because of this lack of attention by traditional – and national – actors that local institutions became involved in electricity provision in low-income areas.

12 However the success of the water privatisation became more contested a few years later, when rates rose, and when one of the two concessionnaires - the Lyonnaise des Eaux & Lopez Group led consortium - decided to exit the market and break the contract. For a thorough critique of this privatisation, see Bello (2004).

13 *Ibid.*, p. 168.

14 President Ramos's name has been associated with a number of scandals, and accused of benefitting from some of the sales of state assets carried out under his presidency. While he was never formally charged, he has been involved in a number of investigations. Among the various scandals that he allegedly took part in, the PEA-AMARI deal (which was nullified later by the Supreme Court even if he was not charged with corruption), the Centennial Expo project, the Benpres-North Luzon Expressway or the sale of Fort Bonifacio – the biggest real-estate transaction in the Philippine history – can be mentioned.

15 The 'Ten Points Action Plan' of President Estrada, quoted in Sta Ana (1998), p. 160.

4. The reshuffling of actors and organizations involved in the policies targeting the urban poor.

While the electricity sector was undergoing a profound restructuring, another process was taking place in the Philippines: decentralisation. With the adoption of the *Local Government Code* in 1991, consolidated in 1992 by the *Urban Development and Housing Act* (UDHA), the Philippines witnessed the rise of 'local government units' (LGUs). These 'government units' are present on two levels. In Metro Manila, there are 17 administrative cities. Each city is composed of several districts – *barangays* – that have their own administration. In this section, it is argued that the two processes have produced a phenomenon of territorialisation of energy issues, and this section will demonstrate it using the case-study of electrification projects in depressed areas¹⁶.

The emergence, in the decision-making process, of these lower strata of the administration answers to a withdrawal of the state at the national level. The role of LGUs is still unclear, and they have yet to assert themselves, but they have become a key interlocutor to Meralco. What is particularly interesting and innovative is that this phenomenon opens the door for a more important role of actors from the civil society.

4.1. The retreat of the State

The restructuring of the electricity sector was highly influenced by neoliberal principles, and it aimed at removing the Philippine State from its position of prime decision-maker. The main danger, it was argued, would be that the political class be exposed to popular pressures. This actor was considered as unreliable, since it would always be tempted to take decisions detrimental to the sector in the long run in order to take advantage of the immediate benefits of their policy choices: the problem of price-setting exemplifies this dilemma. Having the ERC in charge of price-setting was therefore fundamental to the reform. However energy policies cannot be reduced to the mere question of price-setting, and the Philippine State used to play a role in the promotion of access to electricity, in the more remote rural areas¹⁷ as well as in the urban centres where it was not technical but financial obstacles that posed problems. Being connected to the electricity is indeed an important element when one considers human development (Patalinghug, 2002; Tully, 2006) and this aspect of electricity policy falls under the scope of public action.

The reform, however, did not clearly address this issue. The question of access to electricity for the poorer is addressed through one policy implement only: the creation of a subsidised tariff (see figure 2). All consumers, residential, commercial or industrial, finance it collectively, but it is limited to residential beneficiaries. The main point that one has to keep in mind is that this subsidy is consumption-based, and

¹⁶ This is the terminology used by the Philippine administration. Its first use can be traced back to the 1980's, in the aftermath of the Marcos era, when the Presidential Commission for the Urban Poor identified specific areas in Metro Manila where vulnerable populations are located.

¹⁷ Electrification is a real issue in the Philippines, where the population is scattered in over 2,000 islands.

does not depend on the revenues of the household. While it targets "marginalized / low-income captive market end-users who cannot afford to pay at full cost"¹⁸, it only takes into consideration the level of consumption of the household (see Table 1). This focus on the level of consumption is based on the premise that poorer households own less electric appliances, and therefore have a lower consumption of electricity. While this assumption is not false, this system suffers from serious shortcomings. First of all, this subsidy does not, as the law states it, target exclusively the "marginalised end-users". Wealthy households, for instance, have secondary residences that they seldom use, and which often benefit from lifeline rates. On the contrary, in some cases poorer households have a consumption that is above the limit of the lifeline. An executive from the distribution utility¹⁹ indeed acknowledged this phenomenon, which he explained by advancing two possibilities. First of all, the size of their household is not taken into account, and therefore a family with ten members living under the same roof will consume more than a couple with no children. Second, the appliances owned by low-income earning families tend to be older, and can be less energy-efficient.

Table 1: The Lifeline Subsidy Scheme

kWh consumption	Lifeline discount (% of charges)
1 - 20	100 %
21 - 50	50 %
51 - 70	35 %
71 - 100	20 %

Source: ERC case No. 2008-026, November 10, 2008

Apart from this mechanism, the social dimension of electricity distribution seems to be receiving very little attention from public authorities. The current regulatory framework in the Philippines states that the general policy is to be drafted by the *Department of Energy* (DoE). However the various officials from the Department that could be interviewed were foreign to the question of electrification for the urban poor. It is striking that when Meralco launches an electrification program in an urban poor community, it is not recognised as such by the DoE. The program appears in the yearly *distribution development plan*, but it is not underlined or filed in a separate category from other extensions of the network: the public administration simply has no legibility over the electrification of depressed areas. While this issue would fall under the prerogative of the DoE, it is not considered as an issue, and it is looked over. While important programs were carried out in the 1990's under the leadership of the GoP (see Box 2), the effort towards better electrification is now borne by the DU. This vacuum created by the GoP's withdrawal has opened up opportunities for new actors to emerge in the debate.

18 Electricity Power Industry Reform Act of 2001 (Republic Act No. 9136), Rule 4 (yy).

19 Interview with a MERALCO executive from the "utility economics" department, 31/01/2012, Pasig City.

Box 2 - The Depressed Areas Electrification Program (DAEP)

The most important of electrification programs is the *Depressed Areas Electrification Program* (DAEP). This program is notable for at least two reasons. First, its scale: it targeted 229 'areas for priority development', regrouping 320,000 households (exceeding the initial objective of 300,000 households) or about 2 million inhabitants. Second, it exemplifies the shift in the dogma regarding popular settlements: the idea here was to provide electricity even in settlements that were located on contested land – be it public or private. It was the result of a series of meetings gathering Meralco, the Presidential Commission on the Urban Poor (PCUP), the NHA as well as the Housing and Urban Development Coordinating Council (HUDCC), which started in 1989 (USAID, 2004). This program was made possible by the Japanese Bank for International Cooperation (JBIC), which provided the necessary funds in the form of a 5,066 million yen loan⁶³. The remaining 20% of the total cost were borne by Meralco. The DAEP ended in 1999, when the funds were all depleted.

4.2. The increased role of city governments and *barangays*

The *Urban Development Housing Act* (UDHA) gives the responsibility of power provision to city governments. In fact, the DU is required by the *Philippine Distribution Code* to consult and get input from them. The choice of the beneficiary area for an electrification program as well as its proceedings is the result of a discussion between Meralco and the city government. However it is notable that city governments do not have a department dedicated to issues regarding power supply. The office in charge of the urban poor will usually follow the design of electrification programs, but it appears that overall, city governments have no trained personnel in order to deal specifically with energy issues. This empowerment of LGUs is relatively new, and their means of action have yet to be determined: the legal framework is blurry on the matter. Asymmetry of information quite clearly favours the DU when it enters into negotiation with city governments.

Cooperation between local authorities and national actors – the DoE and the ERC – is another important question. It appears that in this regard little communication can be observed. While Meralco does communicate with LGUs, the national agencies remain out of this process, completely unaware of the discussions that are going on. When the DU presents its *Distribution Development Plan*, no information is given relatively to the position of the LGU. It appears that the DoE has few contacts with the LGUs, and no privileged interlocutors in these administrations.

Indeed, while such programs are carried out with the intervention of both the DU and the concerned LGUs, it is notable that Meralco is the entity that takes the decision of doing something in the first place. It does cooperate with the *Department of Social Welfare and Development* (DSWD), but it remains the key decision-maker in the process. Executives of the DU involved in these electrification programs reveal that the company chooses the areas that will benefit from their action depending on the relationship that they have with city governments: '*We work with the city governments that are willing to work with us, that are efficient*'²⁰. Evidently, the idea of supporting a better homogeneity over the metropolitan territory, in terms of service, is not a prime objective for the new regulatory framework.

20 Extracted from an interview with a MERALCO executive, 08/04/2013, Pasig City.

4.3. An opportunity for civil society? The growing influence of actors at the *barangay* level

The other administrative level empowered by the UDHA is the *barangay*, even if it is not specifically in charge of electricity issues. While these actors are usually not present during the talks between the city government and the DU – and in any case they have no direct power of decision in this matter – they remain important. Indeed, as the level of governance closest to the inhabitants, they are usually involved in the implementation phase of electrification projects. They stand between the DU and the beneficiaries, and are therefore key elements in the communication between these two parties. While they hold no power in the decision to electrify or not the area they are in charge of, their cooperation is usually a great asset for the success of a given project. On the contrary, their lack of cooperation can greatly impede the development of such an endeavour.

The reality is that while *Barangay Halls* are not directly in charge of electricity provision by law, this issue is still present at this level of governance. For instance, it is notable that the question of electrification is an important issue in electoral campaigns for the election of the *barangay* representatives. It was particularly visible in Payatas for instance, when the DAEP was being discussed and then implemented. It is interestingly also through the *barangay* administrations that organisations from civil society, NGOs and CBOs, manage to express themselves. These actors participate to the public life at the local level – and this participation is provisioned by law²¹ – and therefore discuss electricity matters with *barangay* officials, who will in turn communicate their inputs to the city level.

The role of CBOs and urban poor organisations in general should not be underestimated. Shatkin (2007) hypothesises that the strength of people's movements and organisations – in the 1990's the country was believed to have the highest number per capita of NGOs focusing on vulnerable groups²² – can be traced back to the anti-authoritarian movement of the 1980's. In the context of an authoritarian regime, and even after it fell in the context of a general distrust towards public authorities, residents' organisation were believed to constitute an alternative solution for the improvement of the condition of the urban poor. In line with this general empowerment, one can witness an increased role of civil society organisations. They express their discontent through the *Barangay Hall*, even though their participation to the discussion is not stated in the legislation. The "empowerment" of urban poor communities is worth mentioning, even while CBOs' influence varies in each *barangay*. In addition, it is important to note that NGOs also have an

21 On the role of civil society and the increasing participation of NGOs at the local level, see Shatkin (2000 & 2007).

22 Shatkin (2007), p. 20.

influence that goes beyond LGUs and that some activists²³ were able to enter the state apparatus and acquire more capacity of action.

The DU is now forming relationships directly with actors from the civil society – NGOs mainly – and in a way bypasses the state institutions. Among other advantages that such a partnership can have for Meralco is the possibility to use the NGO's resources in order to finance the cost of the wires linking the clusters of meters to the newly electrified households. NGOs also have capacities of mobilisation of the community, which can be interesting for the DU. The most advertised of such partnerships so far is with an NGO called Gawad Kalinga²⁴. This new tendency of relying on additional partners outside of state institutions can be interpreted as sign that there is less and less cooperation between the DU and the central State.

5. MERALCO's answer to low-income settlements

Public debate around privatisation and the neoliberal model of regulation is very much polarised around the questions of tariff and reliability of electricity provision in the Philippines (Rappler, 19/12/2013). These were the terms of the discussion when the law was passed - with the idea that the private sector was more long-sighted and in better position than the state to make the necessary investments to guarantee secure electricity provision, and that introducing competition would bring the prices down. In this section, we suggest going beyond these issues and argue that the reform also had some consequences on the DU's behaviour, insofar as it triggered a change in its internal policies and marketing strategies. First of all, Meralco has been empowered by the reform, in the sense that the state has reduced its constraints on the utility. It is visible in the domain of electrification but also in secondary issues such as the visibility of its wires (whether they are hanging atop the streets or buried underground). Second, while the company has to take urban poor communities under consideration, since it is concerned with the issue of electricity pilferage, its approach is largely a repressive one. Third, the electricity sector reforms have not only impacted the number of electrification programs carried out: the projects carried out by the DU are fewer, but also different in nature from the previously existing ones.

²³ The particular example of Karina David, a former community organiser who was appointed head of the previously mentioned Housing and Urban Development Coordinating Committee (HUDCC) in 1995, as well as special advisor of the President for housing issues, is quite illustrative in this regard.

²⁴ Gawad Kalinga – the Gawad Kalinga Community Development Foundation – was formed in 2003. It is a well-known NGO in the country, whose objectives are the following: 'ending poverty for 5 million families by 2024; land for the landless; homes for the homeless; food for the hungry' (<http://www.gk1world.com>).

5.1. Meralco's increased autonomy

When it comes to electrification, the DU has a significant room of manoeuvre. Indeed, the state has placed few constraints on Meralco. The EPIRA and its further development, the *Magna Carta* for residential consumers (2004) produced by the ERC, both tackle the question of popular settlements. Article 6 of the EPIRA deals with the 'right to an electric service'. The text offers a legal basis to Meralco for refusing applications in urban poor communities. This rule was the result of lobbying from Meralco: the actors present at the time when the EPIRA was designed and passed mentioned that these strict requirements were wanted by the DU (Interviews C & D). This was a way for the company to 'protect itself' and 'not take sides in land conflicts' (Interview E).

The consequence of this rule is to position Meralco as the prime decision-maker when it comes to informal settlements, and this empowerment of the company is visible in the evolution of how electrification programs are carried out. As it has been evoked, the State was a central actor in previous electrification programs. Not only did the Government manage to find the funding necessary for such an endeavour, but through its various agencies and commissions, it contributed to the design and implementation of the program. In the recent years, since the beginning of the 2000's, one can observe that the state has a diminished role in the issue of access to electricity in popular settlements. The most important change is perhaps that now the central state does not initiate electrification programs. Indeed, while they are carried out with the intervention of both the DU and the relevant LGUs, Meralco is the entity that takes the decision to do something in the first place. Beyond the mere problem of electrification, the DU also has a certain autonomy when it comes to setting standards of service. The example of wires is quite telling. The regulation in place places little pressure on the company, since it is stated that burying wires has to be done "if it is possible financially" (Porio, 2013, pers. comm.). In this context, there is no incentive for Meralco to increase its expenditure for its wires. And the situation is translated by the variability of standards on the matter. In middle and low income areas, Meralco's installations, and in particular its wires, are very visible (see Picture 1). On the contrary, other areas are benefitting from better infrastructure, with wires that are placed higher and more orderly, and that do not constitute a potential hazard (see Picture 2 below, taken from a district neighbouring Pansol).

Picture 1: The wires hanging over Pansol in Quezon City, Metro Manila, February 2013.



Photo credit: Author

Picture 2: Picture 2: Loyola Grand Villas, Quezon City, Metro Manila, April 2014



Photo credit: Author

Even when the population expresses discontent over the problem of hanging wires, and when the *Barangay Hall* relays the complaints to the DU, in most cases the company does not invest in order to settle the problem. At the national level, the State or the regulatory agency do not take part in the debate, leaving LGUs in charge of obtaining case-by-case agreements with Meralco.

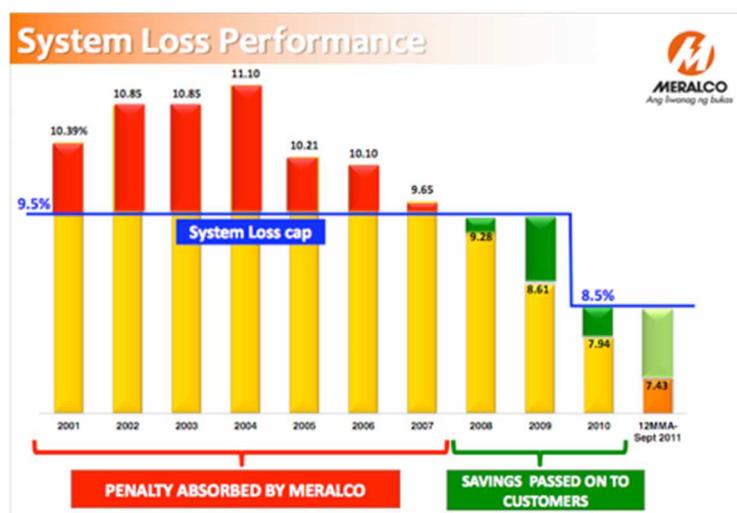
5.2. Meralco's interest in electrification projects

It has been argued, the DU is left relatively free to make its own choices relatively to urban poor communities when households are not able to present a land title. The question is then: why is the utility concerned at all with this category of population? Until very recently, the company did not communicate much on its role as a service provider for the urban poor: it was for instance a fierce opponent to the introduction of lifeline rates when the EPIRA was being designed, and it tried to appeal the decision to renew the subsidised rates for another ten years in 2012. The Meralco executives perceive the measure as 'unfair', since it favours the most difficult customers – those who do not pay in time, who steal electricity – over the 'good' customers who pay in time and do not create any problems:

'Meralco was willing to remove the lifeline rate provision, because it is not fair to other consumers. When it was renewed for another ten years, we were not happy about that. The decision was very political, it was adopted during the time of Gloria Macapagal²⁵, when she needed to win the voices of the masses – and at that time the clamour was for lower electricity rates.'(Interview G)

What triggered its action, however, was being confronted to the high incidence of electricity pilferage. It is all the more important for the DU that the ERC sets a limit to the "acceptable" losses of electricity - both technical and non-technical. The cost of losses will fall upon the DU once this limit is reached. If losses are below this level, the amount of money saved is used to reduce tariffs. The following graph shows the evolution of these losses overtime:

Figure 2: The Evolution of electricity losses in the Meralco franchise



Source: Meralco Presentation “How do you light up a nation?”, Meeting with the German Club, 22/11/2011.

25 Gloria Macapagal was President of the Philippines (2001 – 2010) at the time of EPIRA's enactment.

In order to achieve this decrease in terms of losses, the DU has adopted several approaches. Resources are dedicated to fighting electricity theft and tampering, with employees that are sent to affected areas in order to cut illegal connections and prosecute violators in front of ERC judges (Interviews D & F). In some areas controls by Meralco are as frequent as once a week. Usually, the wires are cut during the day, and the following night tappers re-establish the lines (Interview B). This game of cats-and-mice is very time-consuming for both the utility and the illegal tappers, which has led the company to try alternative modes of action.

In recent years, Meralco has been trying to cast a more positive image of its role, and appear as a socially responsible organisation rather than a mere profit-seeking company. A good example of it is the installation of street-lighting, whose cost is divided between the LGU and the utility. This initiative shows the company's will to emphasise its social role, but also its effort to reduce electricity theft. Indeed, the lights are equipped with alarms that detect electricity tampering, and shut off electricity for the whole community when activated. In this case, as with EMCs where the idea is to 'make consumers face they responsibilities when they don't pay their bills' and 'let them pay the price of living with no electricity service' (Interview G), Meralco's strategy is to "educate" the urban poor and install a system of incentives in order to reduce meter tampering and electricity pilferage.

In addition, in order to offer the urban poor a more affordable service, and integrate them to the legal system of distribution, a new offer is being developed and tested by Meralco: pre-paid metering. The development of this system is still at its beginning: a pilot area has been designated and the scheme is being experimented, but the company is still working on the technical possibilities. The scheme has been approved by the ERC, but no date has been communicated for its entry in the market. The idea is to allow for the consumer to load a certain amount in his or her meter – using the same selling points that are already in use for mobile telecommunication²⁶. This new system would be promoted for different profiles of end-users, mostly low-consumers that are either poor or that own a secondary condominium which has a low consumption level. In the case of low-income consumers, the goal is to make them manage their consumption. It has been argued that lower-income populations struggle to pay an important sum of money every month, and can better adapt their consumption to their purchasing power if they have access to a pre-payment system (Botton, 2004). This way, Meralco envisions that its losses will be diminished (Interview G).

5.3. The emergence of new electrification schemes

The fact that Meralco has a certain autonomy led to a diversification of its action in low-income areas. Between a purely repressive approach focused on fighting illegal tapping, and a more inclusive one that aims at integrating the urban poor into the formal system, the DU has developed several strategies.

²⁶ Load for mobile phones can be purchased in a multiplicity of selling points in the Philippines. It is available in supermarkets and other large retail centres, but it is also available in the omnipresent neighbourhood stores, *sari sari*, that cover the entire metropolitan area.

While Meralco mostly adopts a repressive stance towards the urban poor, and is reluctant to grant informal settlements access to electricity, it has recently launched a new kind of electrification program. The former DAEP had targeted the entire metropolitan area, and had proven to be costly. In 2011 the DU designed a new scheme and launched the RAISE program. So far, it is estimated that it benefitted approximately 1,500 households last year (Interview F). After witnessing the increase of pilferage in areas that had benefitted from the DAEP, the DU wanted to have better guarantees that the regular electricity connections it provided would be sustainable. Therefore, the key innovation in this program is the fact that clusters of meters are now elevated (Elevated Metering Clusters, EMC). While wall meters were accessible in the context of DAEP, they are now located on top of a pole, so that the population cannot reach the meters easily. The results, in terms of electricity losses, are satisfactory in the eyes of the DU.

Pictures 3 and 4: a couple of elevated metering clusters



Source: Meralco, "Delivering electricity to vulnerable communities", Asian Development Bank Asia Clean Energy Forum, June 19th 2009.

Concerning the financing of this endeavour, the situation is more complex than in the case of DAEP, since no source of funding is specifically dedicated to the electrification program. Therefore the cost of RAISE projects is usually divided between various stakeholders, and the amount that each actor is responsible for is the result of a negotiation carried out prior each project. Typically, LGUs will partly subsidise the cost for elevated metering clusters, while the beneficiary community will help by carrying materials, installing some of the wires and more generally assist the DU. Sometimes, Meralco one, the organisation in charge of social programs in the company – the descendent of the former *Department of Corporate Social Responsibility* – finances the cost of creating a connection (which involves a governmental fee and a price fixed by Meralco): such projects constitute 90% of its expenses. In some instances, the *Department of Social Welfare and Development* (DSWD) also contributes financially. In any case, the state agency is often involved in the planning of the raise projects.

Finally, the cost of the wiring from the meters to the houses is usually borne by the end-users. It is also notable that in the case where the households have to pay the wiring to the meters, the solution is inconsistent with the regulation in place, which states that:

The distribution utility shall bear the cost of the wire extending from the meter to the actual premises of the consumer, except when the consumer requests for the clustering, and in such case, the consumer shall bear the aforementioned costs.²⁷

In other words, these new electrification programs are the direct result of cooperation and negotiation between the LGUs and the DU. The actors that were interviewed insisted upon the role of consensus between all parties in order to explain the emergence of informal arrangements. This is why the projects tend to differ from one city to the other within the metropolitan area, depending on which city is targeted inside of Metro Manila. There is not one model prevailing for the financing of electrification programs: a variety of actors, both public and from civil society, can be involved depending on the project. In the absence of a clear institutional provisions for such demands in the reform, informal arrangements were reached on a case-by-case basis and as a direct result of negotiations and power relations at the local level.

6. Conclusion

In this paper, the electricity sector reform is analysed as the result of an energy crisis on the one hand, and a will to apply the key principles of neoliberalism on the other hand. As a consequence, the legislation focused on two main issues: power prices and security of supply. Public debate regarding the evaluation of the EPIRA is still very heated in the Philippines, and fuelled by the recurrent rises in power prices, and investigations regarding possible collusion between actors of the electricity industry (Interview H). However this paper sought to evaluate the electricity reform regarding another factor: its impact on the urban poor of Metro Manila, and particularly on the efforts towards improving access to electricity.

The results are twofold. First, the interaction between administrative decentralisation and the sector's liberalisation had important consequences for energy policies. While the central State focused only on issues of security of supply and price-setting, LGUs had to step up and become a true interlocutor to Meralco. And through city governments, urban poor organisations can more easily express their concerns and wishes: this evolution of energy governance stresses the need for 'local development' through popular participation and empowerment. It is very much in line with the ideas that have prevailed in development theory and practice since the 1990's, and can be seen as another side of the neoliberal nature of the electricity reform. Mohan and Stokke (2000) indeed argue that 'new managerialism' underlines the potential of decentralised action in order to weaken central ministries, and place the responsibility of service delivery on local authorities' shoulders²⁸. The consequence of this devolution carried out without any transfer of

27 ERC Magna Carta, Resolution No. 25 of 2010, article 11.

28 See for instance the World Bank's World Development Report of 1983 that makes a clear link between administrative decentralisation and market reforms.

resources is that electrification programs are now much fewer, and for each of them new financing schemes have to be found. It translates into a financial burden shared between the different stakeholder: the DU, the LGU, the community itself, and sometimes and NGO involved in the program.

Second, because it has gained an increased autonomy, Meralco can adopt various approaches when tackling the issue of its poorer customers. It is primarily concerned with practices of electricity pilferage and focuses on repression, but the emergence of new programs targeting urban poor communities opens the door for a more inclusive approach. Henri Coing (2002) insists on the idea that regulation is not all about the relationship between the regulator and the regulated: providing electricity requires that users be consulted and integrated into the discussions. In the case of urban poor communities, this point is critical: inhabitants who are refused access to the service tend to tap illegally into the network, thus disturbing the network and inducing costly efforts of repression on the part of the DU (Wang et al., 2010). In this context, the trend initiated by Meralco may be generalised, to the benefit of the urban poor, but also of the DU itself.

Leading a policy that would effectively address access to electricity for the urban poor would require the State to give LGUs real tools and resources. While the DoE pays attention to rural electrification, urban areas are left aside, and no efforts are made to have a homogenous policy over the national, or even metropolitan territory. There is an administrative layer at the metropolitan level - the *Metro Manila Development Authority* (MMDA) - in charge of policy coordination for the greater urban area, but its role in the formulation of energy policies is inexistent. Its action towards urban poor communities is largely a repressive one²⁹ (Ragragio, 2003) and its involvement in electrification schemes would likely prove to be difficult. As a consequence, there is no public authority overseeing these issues on the entire urban area. A complementary action would be to develop incentives for the DU to be more engaged in issues of urban electrification, and add a social dimension to its prerogatives. Such initiative can be steered by the regulatory agency, and in this regard, creating a "consumers satisfaction index"³⁰ was a first step towards more performance-based regulation. This principle aims at increasing the company's efficiency through the creation of financial incentives, and could encourage Meralco to pay a closer attention to its poorest - but numerically significant - end-users.

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29 The MMDA is the entity responsible for the eviction of informal settlements.

30 The customer satisfaction index is the weighted index that measures general and specific areas of customer satisfaction and priorities. Both satisfaction and level of importance by attribute are dictated by customers through an annual survey conducted among residential, core and non-core customers (source: MERALCO annual report, 2010).

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