

Should the ADB Continue “Helping” the Philippine Power Sector?

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Tucked away in an alley off Manila’s chaotic polluted highways, members of a squatter community have come together in a tiny windowless room to talk with us about their problems with their electricity. I am surprised at how many people have come, most of them women, as the men are at work at this time of the day. One lady touches my knee and asks me with sparkling hopeful eyes, “How will you help us?” I explained that I am just there to understand and to listen, and hopefully we can all work together to solve the problems. This answer seemed to satisfy her, and we start the discussion. As I am sitting in this cave-like room lit by one tiny light bulb hanging from a string, I am struck with how ironic it is they are talking of electricity bills so high that they feel like they take up almost all of their income when there is barely anything that uses electricity in the entire house. Actually, the house owner explained to me, that until four years ago their family had many more appliances. But due to continuous power rate hikes, she has been forced to sell most of her things.

This is actually a common occurrence among Manila’s urban poor and middle-class due to the ever-increasing power rates. In fact, the Philippines has the highest power rates in all of Southeast Asia, and they are second to Japan in the entire Asia-Pacific region.¹ After about 25 years of efforts by the Philippine government, multinational institutions, and private companies to completely restructure the power industry to make power more affordable and accessible for poor communities, these communities are now paying double over what they were paying for power previously even after inflation factors are calculated in.

In addition, the current government administration has recently indicated that it will assume P500 billion of the National Power Corporations (NPC)’s debt in order to encourage further privatization. The implications of this are rather alarming since the national government is currently suffering a P3.555-trillion debt burden forcing it to use all of its tax revenues to pay back debt interest. While this kind of debt burden might explain some of the current power crisis and the trend towards privatization, it actually illustrates quite well what happens when a public good and a natural monopoly, like power, is hastily privatized.

The push towards privatization can be explained partly by the Asian Development Bank’s involvement in restructuring the Philippine power sector. Known as a main proponent of privatization, the ADB has been giving assistance to the power sector in the Philippines for the past 30 years. Over this time period, the ADB supported over 23 public sector loans totaling \$2.12 billion for the power sector, three private sector loans and equity investments valued at \$90 million, 21 technical assistance grants worth \$9.42 million and credit enhancements to support \$642 million in public bond issues.² The ADB encouraged private sector participation concretely by placing conditionalities that made the approval of new loans contingent on the government’s commitment to power privatization.

¹ “Privatization of the Philippine Power Industry: Issues and Struggles,” Freedom from Debt Coalition, 2005.

² “ADB Should Continue Helping Philippine Power Sector Study,” Asia Africa Intelligence Wire, Oct 27, 2005.

According to the Energy Policy of the ADB, these conditionalities lead to poverty reduction. More specifically, ADB's goals in the energy sector have been to "increase the availability of energy on a least-cost and environment-friendly manner and to improve energy for people in its DMCs, particularly the poor." While this is a very noble goal, it seems the more money the ADB pours into their operation priorities in the Philippines, the less affordable energy has become for the poor. Many people believe that ADB operation priority of blind faith in the private sector has led to the current crisis in the energy sector.³

The ADB takes a position that privatization is more efficient than the public sector, and through increasing competition, the good will become more affordable to more people. They do not advocate for a middle-of-the-road position and in some cases, do not even acknowledge the larger debate of private vs. public. In one publication on the private sector, the ADB states: "It is widely accepted that the private sector is needed and better suited for sustaining rapid growth."⁴ Their energy policy aims to promote private sector involvement through restructuring the energy sector and creating an enabling environment for private investors.⁵ They claimed that it would lead to more affordable power rates. But the case of the Philippines has shown the exact opposite results.

As a bank whose main objective is poverty reduction, one would think that ADB's continuous substantial involvement, coming in the form of billions of US dollars, in reforming the power sector should have seen better results for the poor communities in Manila. Recently, an economic study that supports ADB's continuing involvement revealed that ADB's sectors assistance programs did not achieve the two key goals: provision of reliable and affordable energy, and a financially viable power sector.⁶ Ironically, this same report advocates for the ADB's continuing involvement in sector reform. One might think that since the main objectives weren't met that there would be a substantial evaluation and revision of the current policy and strategy of the ADB's involvement in the Philippines power sector. However, the ADB director for operations evaluation department, Bruce Murray, said that developing the private sector takes time and that the ADB will continue to engage in policy dialogue to create an enabling environment for the private sector to invest in power projects.⁷ In short, we can expect more of the same.

One only has to look at the past involvement of the ADB to understand how this will pan out at the national level. In 2001, the ADB and the Japan Export-Import Bank would not permit the Philippines to access \$950 million in loans until after the Congress passed the Electric Power Industry Reform Act (EPIRA). EPIRA was passed in May 2001 and provided the framework electric power industry reform, including the privatization of the assets of NPC. As the ADB's energy policy report similarly states the goals of this Act were to "ensure the quality, reliability, security, and affordability of the supply of electric power; ensure transparent and reasonable

³ The public versus private debate is an ongoing discussion that has been occupying academics, economists, governments, and civil society for a long time now, and will not probably ever be completely resolved. However, many people have chosen to take a middle of the road position to state that there is a time for privatization and there is a time for goods to remain in the public sector, and neither one is completely all good or all bad. This position is almost essential given that the economics is by definition a *social science* and every situation has a different cultural and historical context that influenced economic trends. Mistakes are made when economists take the position that economics is a hard science that transcends societal differences and historical contexts.

⁴ "Private Sector Development," Asian Development Bank, June 2005, p.3.

⁵ "Energy 2000 Review of the Energy Policy of the Asian Development Bank," Asian Development Bank, 2000, p. 49.

⁶ "ADB Should Continue Helping Philippine Power Sector Study," Asia Africa Intelligence Wire, Oct 27, 2005.

⁷ Ibid.

prices of electricity in a regime of free and fair competition; and to protect the public interest as it is affected by the rates and services of electric utilities.”⁸ The Energy Regulatory Board (ERC) was set up to regulate the privatization of NPC and to ensure power rates remain affordable. However, ERC has no real regulatory power as it is captive of the NPC and must honor the power contracts of individual companies. Since the EPIRA was passed, power rates have increased on average from P4/kwh to P7.50/kwh, making the promise of power affordability very far away from the current situation.

At the community level in Metro Manila, power rates are completely unaffordable. About one fourth of a family’s income goes to monthly electric bill. People have to take out loans from their friends and from loan sharks in order to pay their power bills so that their power won’t be shut off. They are forced to sell appliances and use only the bare minimum. Power companies and government officials never go to the community to listen to their problems with their electricity. Power bills are huge and list many items that people do not understand (mainly this is due to the Independent Power Producers (IPPs) section of the bill). People are requesting that the government improve transparency. They want to know about all the extra items on their electric bill and where their money is going. They also want the national debt relieved, electricity subsidies for urban poor consumers, and for them to be able to pay for only what they consume. In addition, they want to be active participants in the power reform process. They also complain of private companies only caring about making profits and explained that they believe that basic services, like power, should return to the private sector.⁹

This position is shared by civil society groups all over the Asia Pacific region. Social movements, people’s organizations, and NGOs have come together under the shared belief that the power industry has become a victim to short-term planning based on profitability for individual enterprises, creating an unsustainable market which treats electricity as a normal commodity and a regulatory authority that is completely unaccountable in matters of public interest. Furthermore, when private players default, private debt is transforming into public debt forcing tax payers to pay for private company losses. In light of this situation, civil society is calling for the reform in the power industry to include the core concept that electricity is a fundamental right and must be a public service.¹⁰

However, this call for power to return to public sector is going largely unheard. Currently, the ADB is discussing a Power Sector Development Program with the government to address the current power crisis and to address the challenges to restructuring and privatizing the Philippine power sector. In addition, the ADB is in the process of finalizing a loan and providing creditors’ consent for the further privatization of the Philippine power sector. It would be interesting to obtain follow-up information on a technical assistance grant that was granted to improve the Philippine power sector that claimed to adopt “a participatory approach in the development of power sector by consulting target groups, communities, relevant government agencies, stakeholders, and NGOs active in the energy sector” in order to see how they conducted and incorporated these consultations in their program. As of now, the participatory approach of the ADB’s technical assistance loan programs on the Philippine power sector reform seems noticeably absent, and if there were community consultations, their concerns were certainly not

⁸ Republic Act No.9136, Republic of the Philippines Congress of the Philippines Metro Manila, July 24, 2000, p. 1

⁹ Based on community focus group discussions in Santolan, Pasig City and Tatalon, Quezon City on October 21 and 22.

¹⁰ Lidy Nacpil. “Global Debt Domination and the Privatization of Water and Power Services,” Conference on Debt and the Privatization of Water and Power Services, p14-15.

adopted by the ADB's energy policy framework. The squatter communities that we visited to discuss electricity problems with have not been represented in any current government or ADB policy. As they told me, no one is listening to them.

Upon leaving one of the slum communities in Metro Manila, I noticed a big bellow of smoke rising in a distance on the city skyline. Nobody seemed to care or notice and when I asked what it was, everyone answered nonchalantly that the police had set fire to a squatter community to get them to leave the area. I thought about the woman we had just spoken to in that dark room; how difficult it would be to make it out of a fire alive; how she thanked me again and again for coming and listening; and how no one ever goes there, and no one cares about their problems. I asked the taxi driver about the slum community burning in the distance, "Where will they go?" He just shrugged his shoulders, and black smoke continued to fill the horizon.

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