

PROVEN DELIVERY MODELS FOR LED PUBLIC LIGHTING

Lease-to-Own Delivery Model in Guadalajara, Mexico
Case Study #5





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ACKNOWLEDGEMENTS

This case study was written by Pedzi Makumbe, Debbie K. Weyl, Andrew Eil, and Jie Li, with funding from The World Bank's Energy Sector Management Assistance Program (ESMAP) and the Community Development Carbon Fund (CDCF), both of which are multi-donor technical assistance trust funds administered by The World Bank. The work was led by ESMAP in close collaboration with the Social, Urban, Rural, and Resilience Global Practice (GSURR) and the Environment and Natural Resources Global Practice (GENDR) of The World Bank Group. The authors would like to thank Ing. Héctor Ledezma Aguirre, Director of States and Municipalities, CONUEE, Government of Mexico; Lic. Francisco Castillo, Secretary of Public Services, and Ing. Alberto Arreola, Director of Street Lighting, Municipality of Guadalajara; and Ing. Sergio González Cota, Advisor to the Municipality of Guadalajara and Member of the Association of Electrical Engineers from the State of Jalisco.

The report benefited tremendously from support and comments by Rohit Khanna, Practice Manager, ESMAP (World Bank). It also significantly benefited from comments by Wendy Hughes, Lead Energy Economist; Ivan Jaques, Senior Energy Economist; Martina Bosi, Senior Energy Economist, ESMAP (World Bank); Ashok Sarkar, Senior Energy Specialist (World Bank); and Luiz Maurer, Principal Industry Specialist (International Finance Corporation).



LEASE-TO-OWN DELIVERY MODEL: GUADALAJARA, MEXICO

Location	Guadalajara, Mexico
Project Dates	2013 to 2016
Project Size	80,000 total points of light; 40,000 to be replaced
Implementing Agency	Directorate of Public Lighting
Funding Mechanism	Lease to Own; Financed with Energy Savings, 15% reimbursement from Banobras, and guarantee from State government
Implementation/Procurement Process	Installation by contractor, maintenance by Guadalajara
Expected Energy Savings	50 to 55%

Guadalajara, with a population of approximately 1.5 million, is the fourth largest city in Mexico and is located in the country's central Pacific region. Until the implementation of the current street lighting retrofit project, the city's outdated street lighting infrastructure had not been renovated in over 30 years. Lighting crews could not keep up with outages reported by citizens and there were many unlit areas around the city. This coincided with increasing crime rates, leading to an overall lack of safety in the city. The outdated infrastructure also required substantial spending on both maintenance and electricity for the streetlights. Street lighting represented approximately 18 percent of electricity consumption and paying for it was a significant component of the city's budget.¹

To help Guadalajara and other cities address the problem, Mexico's national government established National Project for Energy Efficiency and Public Municipal Lighting (*Proyecto Nacional de Eficiencia Energética en Alumbrado Público Municipal*, or *National Public Lighting Program*).² The program provides a significant amount of technical assistance to cities embarking on LED public lighting projects. The cities also have an opportunity to obtain financing from the National Bank of Public Works and Services (*Banco Nacional de Obras y Servicios Públicos*, or *Banobras*) and to obtain rebates after verifying the energy savings from the investment. The technical assistance reduces the risk that municipalities associate with embarking on an LED street lighting project and the rebate provides an additional incentive to retrofit outdated street lighting infrastructure.

Guadalajara initiated its LED street lighting program in 2013, soon after the city leadership entered office, to address the problems described above and take advantage of the National Public Lighting Program. Although the city had previously considered upgrading streetlights, previous mayors had deemed municipal resources insufficient to do so. Guadalajara now expects to achieve a fully operational street lighting system through this project. The city currently has approximately 80,000 streetlights installed, all of them sodium-vapor luminaires; of these, half – 40,000 – will be replaced with LEDs in 200 districts and along 100 roads. The project will also use a portion of the removed stock of still-operational sodium-vapor luminaires to replace the out-of-service luminaires in other parts of the city.

CONTEXT

The National Public Lighting Program

Several national strategies and programs in Mexico have been created at different points in time. The efforts focused on energy efficiency as a way to address issues such as energy security (ensuring reliable and affordable energy supply for all) and environmental concerns (including reduction of greenhouse gases), among others. One such program was Mexico's National Program for the Sustainable Use of Energy (2009–12). The program identified seven areas with the greatest potential for reducing energy consumption: transport, lighting, appliances, cogeneration, buildings, industrial motors, and water pumps.

In the case of lighting, one action item highlighted to increase efficiency was to accelerate the implementation of energy efficiency in street lighting. To achieve this, Mexico's National Commission for the Efficient Use of Energy (*La Comisión Nacional para el Uso Eficiente de la Energía* or *CONUEE*) created and implemented the National Public Lighting Program to improve the efficiency and quality of street lighting in municipalities. This program is supporting economical projects that use energy savings as the source of repayment; thus, municipalities do not have to commit resources to participate in the program.

The program brings together support from CONUEE, the Federal Electricity Commission (*Comisión Federal de Electricidad* or *CFE*), and the state-owned Banobras to provide municipalities with guidance on implementation, verification, and financing of efficient street lighting projects. As one element of this support, CONUEE offers technical guidance regarding compliance with Mexican standards (*Normas Oficiales Mexicanas* or *NOM*) for luminaires and systems,³ including the energy efficiency standard for LED street lighting luminaires (NOM-031-ENER-2012)⁴—that Mexico adopted in 2012. CONUEE makes resources and tools available to help local officials in municipalities like Guadalajara to develop the necessary technical analysis to support the procurement of luminaires. These tools include:

Box 1 | Challenges of the Mexico National Lighting Program

The National Project for Energy Efficiency and Public Municipal Lighting in Mexico has achieved mixed results. Of the 15 proposals implemented, fewer than 10 have used the government subsidy. The program encountered several difficulties:

- Cities interested in participating had to secure collaboration and approvals from CONUEE, CFE, the Ministry of Finance, the Ministry of Energy, and Banobras. This increased transaction costs and the amount of bureaucracy involved.
- Financing for the investments was limited since many municipalities are not creditworthy. Guadalajara was one of the few cities that could obtain investment from the private sector.
- Although the government provided financial incentives, timing was often a challenge. Incentives from Banobras were only available after verification of savings.

As result, the Mexican government developed a new program with the World Bank that provides financing while removing many of the bureaucratic challenges that have discouraged cities from investing in efficient public lighting.

- A **technical and economic tool** developed by CONUEE to assess the energy savings potential and financial impact of a transition to more efficient lighting
- The **SEAD Street Lighting Tool**⁵ which evaluates the light quality and life cycle costs of fixtures that are being considered for procurement or installation in a project
- A **certified product list**, updated monthly, which includes products that have passed 1,000- and 6,000-hour testing, certified products, and products that failed testing⁶

Finally, CONUEE serves a role in vetting the technical aspects of municipal lighting programs. Before authorizing financing for new streetlights, the Ministry of Finance (*Secretaría de Hacienda*) requests technical certification from CONUEE. This is a notable achievement for the program, as this vetting of the technical specifications and certifications by a third party reduces the risks to municipalities and financial institutions investing in a new technology such as LEDs.

CONUEE is implementing the National Lighting Program in partnership with CFE and Banobras. While CONUEE provides implementation guidance, CFE's role is to measure the energy use from streetlights before and after a project is implemented. Banobras' role is to review the financial viability of the project and, when requested, provide financing to the municipalities.

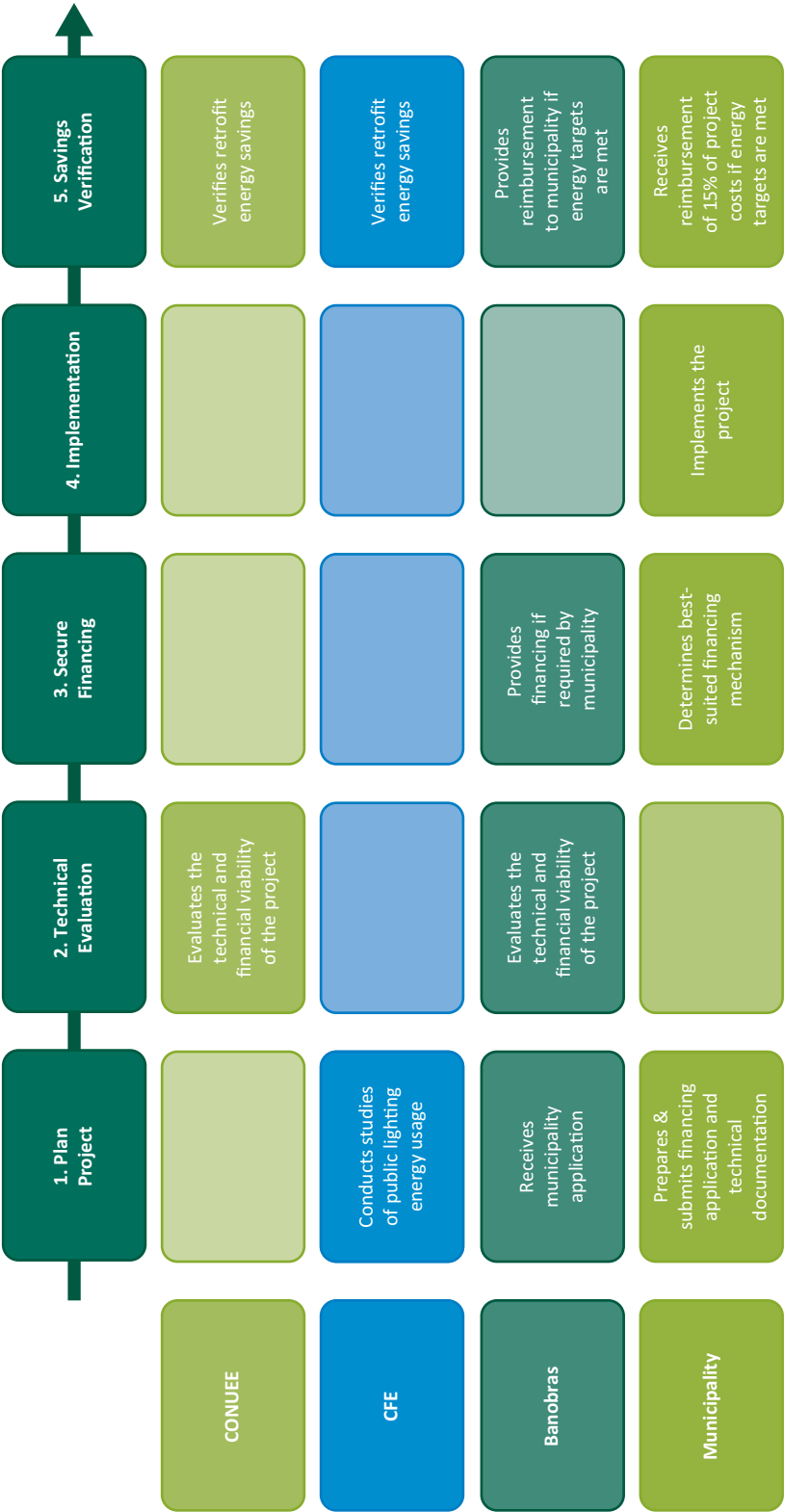
CONUEE's National Lighting Program has five main phases, detailed below and the responsibilities of each stakeholder are shown in Figure 1:⁷

- 1 | **Plan Project:** The municipality prepares and submits a financing application and technical documentation to Banobras, which includes CFE's studies of public lighting energy usage.
- 2 | **Technical Evaluation:** CONUEE and Banobras evaluate the technical and financial viability of the project.
- 3 | **Secure Financing:** If required by the municipality, Banobras provides financing. The program does not require municipalities to finance their program through Banobras; they can finance the project using the mechanism most suited to the city's needs.
- 4 | **Implementation:** The municipality implements the project.
- 5 | **Savings Verification:** At the end of the project, CFE and CONUEE verify the energy savings of the retrofit. If targets are met, the municipalities receive a reimbursement of 15 percent of the total cost of the project (up to Mex\$10 million).

The reimbursement in the Savings Verification stage is an incentive for municipalities to join the National Public Lighting Program. It provides them with a clear financial benefit in case the social and environmental benefits are not sufficiently attractive to spur them to action on street lighting upgrades. After a municipality finishes luminaire installation and provides the required documentation, CONUEE has 20 business days to issue a final technical approval. After that, the reimbursement is provided to the municipality within 15 business days.

The resources for repayments come from the Fund for Energy Transition and Sustainable Energy Use (*Fondo para la Transición Energética y el Aprovechamiento Sustentable de la Energía*, or FOTEASE) of the Secretariat of Energy (*la Secretaría de Energía*, or SENER). This fund was created in 2009 to boost the national energy sector through projects,

Figure 1: Stakeholder Responsibilities for CONUEE's National Lighting Program



programs, and actions that aim to achieve a greater use and development of renewable energy sources and clean technologies.⁸

TRACING THE DEVELOPMENT AND IMPLEMENTATION PROCESS

The implementation process in Guadalajara is summarized in Figure 2.

Project Development

In the context of the National Lighting Program, Guadalajara conducted energy studies of public energy use in collaboration with CFE. The municipality then prepared and submitted a financing application and the technical documentation from CFE studies to Banobras and CONUEE for technical and financial viability evaluation. Additional preparatory work was done to define the current needs of the city's diverse districts (*colonias*), including assessing the characteristics of key roads to define lighting requirements. Field trials were also conducted on representative roads to verify compliance of certain luminaires and technologies with lighting specifications. Most of the existing lighting did not meet the national lighting standard.

The city used the following selection criteria to prioritize the roads to receive replacement luminaires:

- Roads that would benefit from the increased security that better street lighting would provide;
- Roads where out-of-service lamps had been reported through the city's website or hotline; and
- A cross-check between field visits and what was reported by the districts.

This was a high profile and important project for the city. The main considerations during the design stage were:

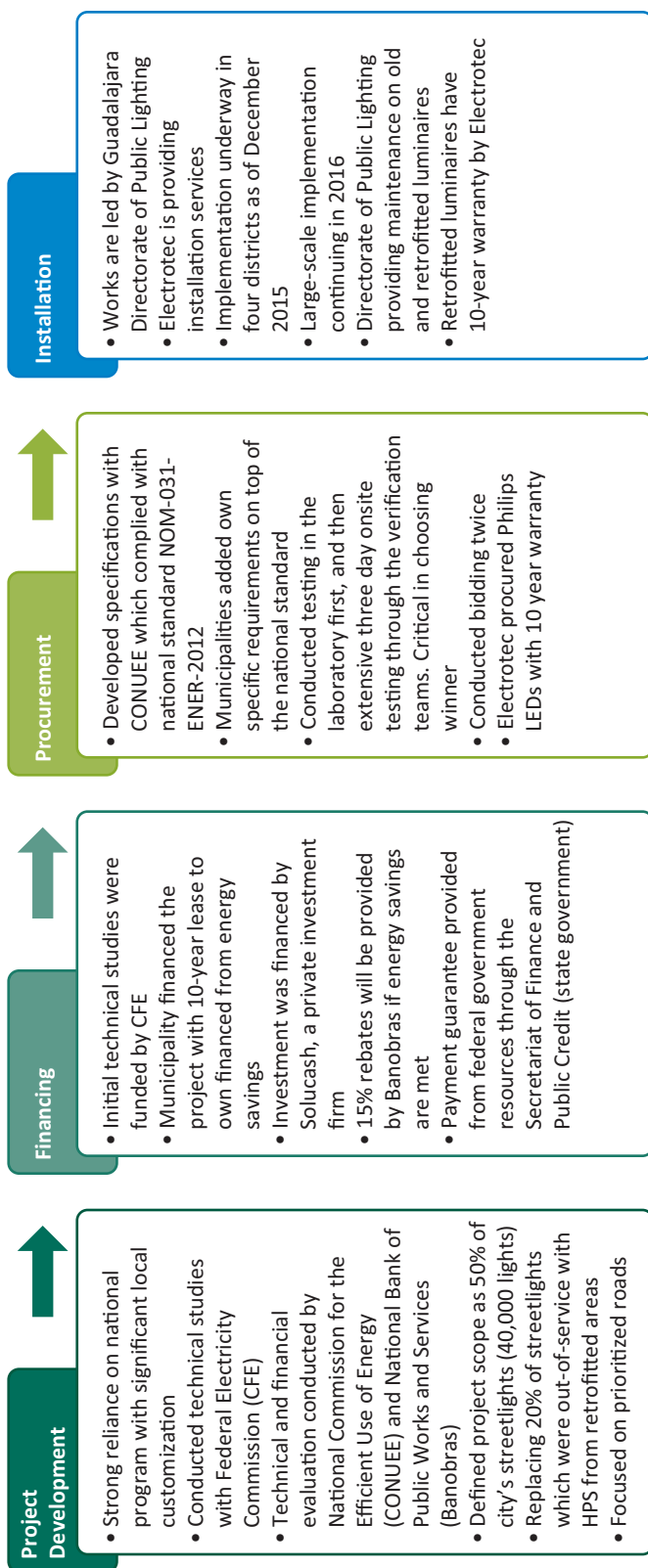
- Assuring the specifications and program design responded directly to the city's needs, even though the project was part of a larger national program; and
- Awarding the contract for project implementation to a contractor that demonstrated a complete understanding of the technical requirements and possessed the technical capability.

The project was scoped to retrofit 50 percent of the city's lights, and to replace the 20 percent of out-of-service lights using non-fully depreciated high-pressure sodium luminaires from the stock of luminaires replaced by LEDs in retrofitted areas.

Financing

The project is being self-financed through energy savings, which are expected to be 50 to 55 percent from the baseline after the installation is complete. The financing instrument is a 10-year leasing contract valued at Mex\$300 million (approximately US\$19 million). The contract is between the municipality and a partnership between *Electricidad y Tecnología SA de CV* (Electrotec), the installer, and *Solucash SA de CV SOFOM ENR* (Solucash), the financial institution. The municipality will pay an average of Mex\$4 million (approximately US\$250,000) per month to Solucash over the 10-year lease term, which reflects an interest rate of 6.7 percent.⁹ After the leasing contract expires and all terms

Figure 2: Summary of the LED Street Lighting Implementation Process in Guadalajara, Mexico





are met, ownership of the luminaires will be transferred to the municipality. The lifetime of the luminaires is 13 years.

Guadalajara's energy savings will be verified by the Directorate of Public Lighting, with the approval of CFE, and are expected to be around US\$500,000 per month. If Guadalajara is unable to make payments from the energy savings, as a guarantee, they can allocate funds from a separate provision of federal government funding provided to municipalities to cover some operational costs. This critical guarantee is included in the master contract as follows:

Failure to make partial or complete payment of any of the periodic installments and in general of any obligation arising from the Master Contract or this Annex, [Guadalajara] establishes as a guarantee payment or alternate source of payment the federal holdings (Participaciones Federales), in which case [Solucash] will give notice to the State Ministry of Finance and Public Credit (Secretaría de Hacienda y Crédito Público) to make payment of the missing amount within 48 hours through federal contributions, otherwise penalty interest is paid.

The city will continue to pay for electricity to CFE and new meters are planned for installation in some parts of the city. The city's electricity bill will be calculated using actual measurements for the streetlights where meters are installed. Where meters are not installed, the electricity bill will be estimated by calculating the difference in wattage

between the old sodium-vapor lamps and the newly installed LED luminaires. At the end of the project, CFE and CONUEE will verify the energy savings of the retrofit. If targets are met, Guadalajara will receive a reimbursement of 15 percent of the total cost of the project (up to Mex\$10 million). Figure 3 summarizes the overall notional flows.

Procurement

CONUEE was critical in helping the municipality define its procurement specifications. There were more than 200 suppliers of efficient LED and metal-halide¹⁰ streetlights available when Guadalajara was beginning the procurement process, and the municipality did not have the technical capacity to develop the procurement specifications and evaluate products to ensure they complied with the most recent standards. The city sought assistance in these technical areas and CONUEE was able to fill these gaps, providing in-depth technical assistance from project inception through the final stages of implementation.

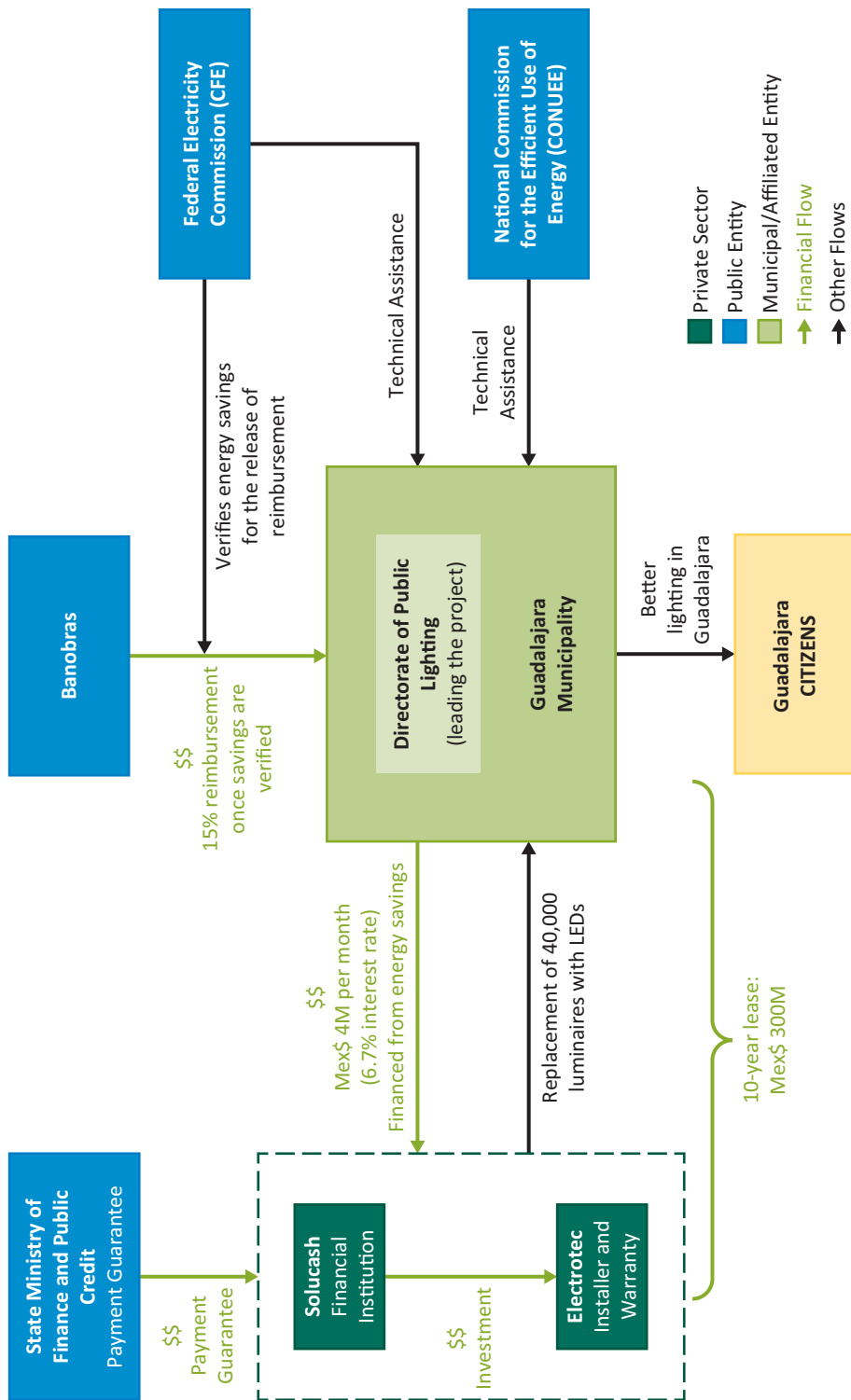
The bidding process was transparent, competitive, and open to all participants. An initial proposal for the bid requirements was presented to the city government using outputs from CONUEE's financial analysis tool. Local stakeholders met with government officials to develop the procurement process and criteria. They agreed upon the following:

- 1 | Products must comply with Mexico's energy efficiency standard for street lighting luminaires—NOM-031-ENER-2012—and must have a 6,000-hour test certificate of compliance issued by CONUEE.
- 2 | Compliance with lighting specifications for the relevant roadway types must be demonstrated through use of the SEAD Street Lighting Tool.
- 3 | Applicants must provide equipment samples for testing in a laboratory and in the field (for the 12 types of roads identified in the project). Verification teams would conduct on-site testing and measurement of the new equipment samples. Only products that passed field verification testing would be considered.
- 4 | Applicants could submit proposals that included a combination of brands and models that best achieved project goals while complying with national standards.

The municipality initially proposed including two additional requirements: a minimum of 50 percent energy savings from the baseline, and lighting levels that exceeded the national requirements by at least 10 percent. After modeling scenarios using the SEAD Street Lighting Tool, it was clearly not feasible to achieve both requirements simultaneously. CONUEE, therefore, recommended that Guadalajara require 50 percent energy savings and compliance with national requirements at the current levels (rather than exceed the requirement by 10 percent) in its tender.

The tender also required that all luminaires project white light and that at least 50 percent of the fixtures (20,000 luminaires) use LED technology. The remainder of the luminaires could use either LED or metal-halide technology. The city required luminaires that project white light because it has been shown to improve safety by increasing visibility and color accuracy on roads, and most people find it more aesthetically pleasing than yellow light.¹¹ Guadalajara launched the open bid process in January 2015. When the call for tenders closed, CONUEE reviewed the provided documentation and certificates, and found that none complied with the technical specifications.

Figure 3: Notional Flows for the Lease-to-Own Model | LED Street Lighting Retrofit in Guadalajara, Mexico



A second bidding process was launched in March 2015, this time requiring at least 30,000 LED luminaires (75 percent of the luminaires to be installed). The 75 percent LED requirement indicated the city's interest in LED and willingness to invest in the same while the 50 percent requirement left the bidders unclear about the intentions of the municipality. The two leading candidates proposed installing 100 percent LED luminaires and complied with all technical specifications; both were also within the project's budget of Mex\$300 million (approximately US\$19 million).

The city conducted a three-day trial to test the luminaires' performance at various heights, distances, and street types. Five models within a range of wattages were tested per supplier. These technical trials were key in selecting the winning contractor, as the exercise provided useful information on the suppliers' claims and overall product quality. For example, although they did not assess the technical cause for this discrepancy, the city found that some products using imported parts no longer met quality specifications after local assembly. Ultimately, the contract was awarded to a partnership between Electrotec and Solucash that had proposed installing several models of Philips luminaires. Whereas Solucash provides the financing, Electrotec is responsible for the technical work, including initial lamp installation and the warranty covering the newly installed systems for the contract period of 10 years (counting from the day the LEDs are installed).

Installation

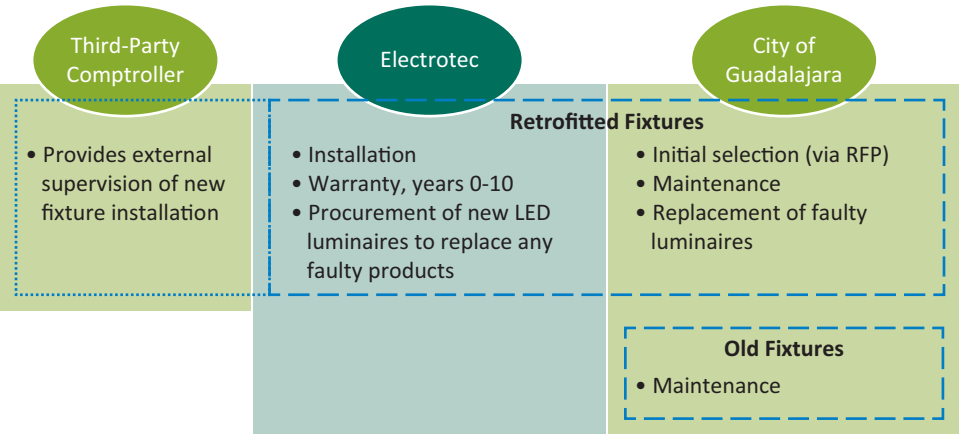
The project is led by Guadalajara's Secretariat of Municipal Public Services (*Secretaría de Servicios Públicos Municipales*) through the Directorate of Public Lighting (*La Dirección de Alumbrado Público*). After awarding the contract, the project went through an approval process with various local and state entities, including the Commission of Acquisitions, the National Ministry of Finance (*Secretaría de Finanzas*), and the State Ministry of Finance and Public Credit (*Secretaría de Hacienda y Crédito Público*).

Following these approvals, installation of luminaires began on April 28, 2015. Pilot testing of the new luminaires was completed in four districts.¹² Local residents reported that the transition has increased safety, and improved the lighting conditions and overall quality of life.

Installation of new LED luminaires is the responsibility of Electrotec, but a third-party comptroller will be on-site during installation to provide external supervision. The installation of all luminaires is expected to be completed by March 2016. After the initial installation period, maintenance of the new luminaires will be the responsibility of the Guadalajara Directorate of Public Lighting. This includes the installation of any replacements for faulty luminaires; however, it will be Electrotec's responsibility to provide these replacement luminaires during the contracting and warranty period of 10 years.

At the end of the contract, the luminaires will become the property of the City of Guadalajara. Maintenance of the remaining sodium-vapor luminaires will remain the city's responsibility throughout. The city will have some stock left over from the project for maintenance of the sodium-vapor luminaires. Figure 4 summarizes the responsibilities of the different stakeholders for the installation and maintenance of streetlights in Guadalajara.

Figure 4: Responsibilities for Street Lighting Installation and Maintenance in Guadalajara, Mexico



LESSONS LEARNED

Cities planning to undertake similar projects should consider several elements in luminaire selection, including: (a) potential energy savings, lower energy bills, and lower maintenance costs; (b) compliance with national and local regulations; (c) the quality and length of product warranties; and (d) the overall life span of the products. Programs should also be framed in the local context.

1 | Consider municipal needs in project design.

A project should be designed to meet the city’s needs, rather than accommodate suppliers’ claims. Local conditions, such as district coverage, types of roads, pole height, pole spacing, and lane width, should be assessed early on. This enables the city to clearly establish supplier requirements from the beginning. Municipalities should invite stakeholders to become involved in the project planning process early, as well, to ensure all voices are heard.

2 | The procurement process should be transparent and flexible.

Guadalajara released two tenders. After evaluating the bids for the first tender and finding none that complied, the criteria were altered slightly and then a revised tender was published. In the end, the city was able to meet or exceed its requirements, including purchasing 100 percent LEDs, and still come in under budget.

3 | Take advantage of available tools and resources.

Many cities lack in-house technical capacity to undertake a large LED retrofit project. The use of tools and resources developed at the national level or by international organizations can help bridge this knowledge gap. The National Lighting Program was integral to the success of the street lighting retrofit in Guadalajara. In addition, use of the SEAD Street Lighting Tool in Guadalajara was key to assessing whether proposed LED luminaires would pass or fail performance specifications. CONUEE had established use of the tool before the project began, so the tool was used effectively to validate whether performance claims would meet the project requirements.

4 | Reduce risk by collaborating with other stakeholders.

Mexico's National Lighting Program verified the feasibility of Guadalajara's program requirements and compliance of luminaires, thus, reducing risk to the municipality, financial institutions, and energy service providers.

5 | Guarantees improve the likelihood of attracting private funding.

The state guarantee was important in attracting private investment to the project. Given that measurement and verification are often difficult and cities have limited budgets, it was important for Solucash to have the guarantee from the state government.

ENDNOTES

- ¹ "Mexico: Street Lighting Programme." Presentation at the World Bank International Conference on Energy Efficient Street Lighting in New Delhi, India. March 2014.
- ² Proyecto Nacional de Eficiencia Energética en Alumbrado Público Municipal - http://www.conuee.gob.mx/wb/Conuee/_proyecto_nacional_de_eficiencia_energetica_en_alu
- ³ Secretaría de Energía. Accessed October 2015: <http://tinyurl.com/p2s36fq>.
- ⁴ *Diario Oficial*, November 2012: <http://tinyurl.com/pz7d5ne>
- ⁵ The SEAD Street Lighting Tool provides a quick, free, and easy way for government procurement officials to evaluate the quality, efficiency, technical compatibility, and lifetime cost of different street lighting products. More information is available at www.superefficient.org/slttool. The Super-efficient Equipment and Appliance Deployment (SEAD) Initiative is a voluntary collaboration among governments working to promote the manufacture, purchase, and use of energy-efficient appliances, lighting, and equipment worldwide.
- ⁶ The certification process is a result of NOM-031, which establishes a series of tests and two certification processes: (i) Testing for the first 1,000 hours – if light output levels are achieved, an initial certificate is given; and (ii) Testing for another 5,000 hours (for a total of 6,000 hours) to measure if light output levels are maintained throughout the lifetime – if light output levels are maintained, a final certificate is given. Products that passed and failed these tests are available online and is updated regularly.
- ⁷ http://www.conuee.gob.mx/wb/CONAE/proyecto_nacional_de_eficiencia_energetica_en_alu
- ⁸ A. E. Guevara Sanginés and J. A. Lara Pulido, 2015. "Mitigación del cambio climático a través de un alumbrado público eficiente en México: superando los retos políticos en aras de la eficiencia económica y el equilibrio ambiental." *Acta Universitaria* 25(1): 43-55. doi: 10.15174/au.2015.681
- ⁹ Including interest, payments over the 10-year lease term will total Mex\$490.4 million (approximately US\$29 million).
- ¹⁰ CONUEE does not endorse the use of any particular technology, as each municipality has its own technical and financial constraints.
- ¹¹ http://www.lighting.philips.com/pwc_li/se_sv/application_areas/assets/pdf/White-Light-brochure.pdf
- ¹² Colonia Morelos, Colonia Aarón Joaquín, Benito Juárez, and Lago Oriente. <http://tinyurl.com/qhx9fk2>

ACRONYMS AND ABBREVIATIONS

Banobras	<i>Banco Nacional de Obras y Servicios Públicos</i> (National Bank of Public Works and Services)
CFE	<i>Comisión Federal de Electricidad</i> (Federal Electricity Commission)
CONUEE	<i>La Comisión Nacional para el Uso Eficiente de la Energía</i> (National Commission for the Efficient Use of Energy)
Electrotec	<i>Electricidad y Tecnología SA de CV</i>
LED	Light-emitting diode
Mex\$	Mexican peso (currency)
National Public Lighting Program	<i>Proyecto Nacional de Eficiencia Energética en Alumbrado Público Municipal</i>
NOM	<i>Norma Oficial Mexicana</i> (Official Mexican Standard)
RFP	Request for Proposal
SEAD	Super-Efficient Equipment and Appliance Deployment
Solucash	<i>Solucash SA de CV SOFOM ENR</i>
US\$	United States dollar (currency)
W	watt

PROVEN DELIVERY MODELS FOR LED PUBLIC LIGHTING

Lease-to-Own Delivery Model in Guadalajara, Mexico is one in a series of seven knowledge products produced by ESMAP in an attempt to help cities work through the challenges associated with implementing LED public lighting programs. The publications include six case studies and a synthesis report which summarizes the case studies. Each case study describes the context in which decisions were made, then recounts the problems encountered and solved to realize the implementation of the programs. The challenges include real-life examples of: cities managing to attract private sector participants to provide necessary financing and technical expertise; programs implemented in municipalities that are not creditworthy and have limited policy and institutional support; small municipalities of about 2,500 residents as well as cities with several million residents; cities managing perceived risks; and cities effectively handling the measurement and verification of electricity savings accruing from the implementation of more efficient LEDs.



Proven Delivery Models for LED Public Lighting | Synthesis of Six Case Studies

CASE STUDIES



- 1 ESCO Delivery Model in Central and Northwestern India: Asian Electronics, Limited



- 2 Super-ESCO Delivery Model in Vizag, India: Energy Efficiency Services, Limited



- 3 Joint Procurement Delivery Model in Ontario, Canada



- 4 Public-Private Partnership Delivery Model in Birmingham, United Kingdom



- 5 Lease-to-Own Delivery Model in Guadalajara, Mexico



- 6 Municipal Financing Delivery Model in Quezon City, Philippines

Written by I Pedzi Makumbe, Debbie K. Weyl, Andrew Eil, and Jie Li

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For more information about ESMAP's Energy Efficiency program and public lighting transformation activities, please visit us at http://www.esmap.org/Energy_Efficient_Cities

Energy Sector Management Assistance Program

The World Bank

1818 H Street, NW

Washington, DC 20433 USA

email: esmap@worldbank.org

web: www.esmap.org