

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

HAITI

**INSTITUTIONAL TRANSFORMATION AND MODERNIZATION PROGRAM OF THE ENERGY
SECTOR – II**

(HA-L1073)

GRANT PROPOSAL

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Electronic Links	
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1.	Policy Letter http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36861338
2.	Means of Verification Matrix http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36737052
3.	Results Framework Matrix http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36737162
Electronic Links	
OPTIONAL	
4.	Cost Benefit Analysis. http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36746936
5.	Monitoring and Evaluation Plan http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36737059
6.	TC Annex http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36751868
7.	Assessment Report PBG I http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36814133
8.	Comparison Policy Matrix (HA-L1065 and HA-L1073) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36840650
9.	PDNA, Assessment of damage, losses, general and sector needs. Annex to the Action Plan for National Recovery and Development of Haiti. March 2010 http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35764178
10.	Commercial Assessment of EDH. http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35764115
11.	Energy Sector White Paper and Road Map. December, 2010 http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35764165
12.	“Haiti Energy Sector Development Plan 2007 – 2017”. November 2006 http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35778554
13.	Due Diligence Report EDH Operations Improvement Initiative, November 2011 http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36747994

ABBREVIATIONS

B/C	Benefit/Cost Ratio
CBA	Cost Benefit Analysis
CMEP	Council of Modernization of Public Enterprises
CMEP Law	Law for the Modernization of Public Utilities
CPI	Consumer Price Index
CRI	Cash Recovery Index
CS	Country Strategy
EA	Executing Agency
ECF	Extended Credit Facility
EDH	<i>Électricité d'Haiti</i>
EWP	Energy White Paper
ESR	Environmental and Social Review
ERR	Economic Rate of Return
FY	Fiscal Year
GDP	Gross Domestic Product
GoH	Government of Haiti
HDI	Human Development Index
HIPC	Heavily Indebted Poor Countries
IC	Independent Contractor
IDB	Inter-American Development Bank
IG	Investment Grant
IMA	Independent Macroeconomic Assessment
IMC	Interim Management Contract
IMF	International Monetary Fund
INE/ENE	Energy Division of the Infrastructure and Environment Department
IPP	Independent Power Producers
IHSI	Institut Haitien des Statistiques et d'Informatique
KfW	<i>Kreditanstalt für Wiederaufbau</i>
km	kilometers
kV	kiloVolt
kWh	Kilowatt hour
LAC	Latin America and the Caribbean
LPG	Liquefied Petroleum Gas
MARNDR	Ministry of Agriculture, Natural Resources and Rural Development
MCI	Ministry of Commerce and Industry
MDE	Ministry of Environment
MDRI	Multilateral Debt Relieve Initiative
MEF	Ministry of Economic and Finance
M&E	Monitoring and Evaluation
MJ	Megajoules
MoU	Memorandum of Understanding
MTPTEC	Ministry of Public Works, Transportation, Energy and Communications

MW	Megawatts
MWh	Megawatt hour
NPV	Net Present Value
OC	Ordinary Capital
OIA	Operations Improvement Agreement
PaP	<i>Port-au-Prince</i>
PBG	Policy Based Grant
PCR	Project Completion Report
PPA	Power Purchase Agreements
PPIAF	Public-Private Infrastructure Advisory Facility
PPP	Public Private Participation
PREPSEL	Project Electricity Loss Reduction
RE	Renewable Energy
ROT	Repair, Operate and Transfer
RMS	Resource Management System
SGC	Commercial Management System
SGST	Managerial System Technical Services
SOIC	Special Operations Improvement Committee
SSE	Secretary of State to Energy
SP	Sub-Program
T&D	Transmission and Distribution
TC	Technical Cooperation
TMC	Transition Management Contract
USAID	United States Agency for International Development
USG	Government of United States

PROJECT SUMMARY

HAITI

INSTITUTIONAL TRANSFORMATION AND MODERNIZATION PROGRAM OF THE ENERGY SECTOR – II (HA-L1073)

Financial Terms and Conditions		
Beneficiary: Republic of Haiti		
Executing Agency: Ministry of Economy and Finance (MEF)		
Source	Amount (US\$)	
IDB (Grant Facility)	US\$12,000,000	
Local	0	
Total	US\$12,000,000	
Project at a Glance		
Project Objective/Description: <p>The overall objective of the Program is to support the Government of Haiti (GoH) in developing an energy sector framework that will contribute to modernize the sector and increase the availability and affordability of energy in order to satisfy the population's needs and foster the competitiveness. The specific objectives of this second operation are to: (i) support the GoH's institutional capacity to define an energy policy and perform the planning and oversight of the energy sector; and (ii) turn the main utility, Electricité d'Haïti (EDH) into a viable financial and operational company.</p>		
Special contractual clauses: <p>Disbursement of the loan proceeds will be subject to completion of policy reform measures as specified in Chapter I, Section B, and in Annex II, "Policy Matrix" (see paragraphs 1.31 to 1.35); "Means of Verification Matrix" (electronic link 2); "Results Framework Matrix" (electronic link 3), and Policy Letter (see paragraph 4.1).</p>		
Exceptions to Bank policies: None		
Project consistent with Country Strategy:	Yes <input checked="" type="checkbox"/> [X]	No <input type="checkbox"/> []
Project qualifies for:	SEQ <input type="checkbox"/> [] PTI <input type="checkbox"/> [] Sector <input type="checkbox"/> [] Geographic <input type="checkbox"/> [] Headcount <input type="checkbox"/> []	
Procurement: N/A		

I. DESCRIPTION AND RESULTS MONITORING

A. Background, Problem Addressed, Justification

- 1.1 From 2004 to 2009, Haiti made substantial progress in maintaining macroeconomic stability, resuming growth, and implementing essential reforms that allowed the cancellation, in June 2009, of US\$1.2 billion of debt under the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relieve Initiative (MDRI). The earthquake was a major setback for Haiti, causing unprecedented damage and loss, estimated at 120% of 2009 gross domestic product (GDP). After the disaster, Haiti obtained additional debt relief from the Bank, Venezuela, and the International Monetary Fund (IMF) for US\$1.1 billion. In July 2010, the IMF approved a three-year Extended Credit Facility (ECF) arrangement to help the Government of Haiti (GoH) cope with the crisis. The IMF's involvement aimed to strengthen the macroeconomic policy framework and to manage the aid inflows.
- 1.2 According to a December 2011 IMF press release, "economic activity has recovered and program implementation under the ECF has been broadly satisfactory". Later, on March 19, 2012, the IMF approved the Second and Third Reviews under the ECF confirming that the program was on track. In 2011, Haiti was able to resume economic growth and is currently in the process of recovering from the effects of the January 2010 earthquake. GDP increased at a rate of 5.6% in Fiscal Year (FY) 2011 with average inflation of 7.4%. Economic growth in FY2011 was accompanied by fiscal and current account deficits: 3.7 percent of GDP and 3.5 percent of GDP, respectively, deriving from the needs associated with reconstruction, and the availability of external funds and remittances to carry them out. This compares to +2.4% of GDP in FY2010's fiscal balance, and current account deficit of 2.6% of GDP in that dramatically unusual year. However, as a result of a stronger than expected performance in domestic revenue and a slightly lower than forecasted expenditures, the fiscal deficit was narrower than anticipated. Also, despite current account deficits, international reserves exceeded five months of next year's imports in FY2011 due to compensatory movements in the capital account of the Balance of Payments. The Independent Macroeconomic Assessment (IMA) conducted by the IDB concludes that the macroeconomic framework of Haiti is appropriate for a policy-based grant (PBG).
- 1.3 In 2012, the GoH's structural reform agenda will focus on: (i) further raising domestic revenue; (ii) improving public financial management and economic governance; (iii) enhancing institutional capacities for better public investment management; (iv) strengthening market-based monetary operations and liquidity management; and (v) reforming investment climate. Forecasts for 2012 anticipate economic growth to be sustained (+7.8% increase in GDP), boosted by a rebound in agriculture, construction and manufacturing. Macroeconomic policies designed to help bring down inflation should be able to lower it to single digits. Finally, a widening fiscal deficit (7.7% of GDP compared to 3.7% in FY 2011) is expected, due to acceleration in capital expenditure, coupled with a slightly widening current account deficit (4.5% of GDP, compared to 3.5% in FY 2011).

- 1.4 **The Power Sector.** According to the *Institut Haïtien des Statistiques et d'Informatique* (IHSI),¹ the estimated population in Haiti is 10 million inhabitants and with more than 70% of the total population without access to electricity. Electricity prices in Haiti are among the highest in the world and the sector is characterized by low electrification rates (34% at the national level) and inadequate and insufficient delivery service.
- 1.5 The current total installed generation capacity in the Electricité d'Haïti (EDH) system is approximately 300-megawatt (MW) (peak power demand estimated at 500-MW prior to the earthquake) of which 80% is based on diesel plants (most of it running on gas oil). Electricity generation consists of Péligre Hydroelectric Power Plant with 54-MW installed;² seven small hydroelectric plants (with a total installed capacity of 7-MW serving the isolated systems) and 23 thermal generation plants. The Metropolitan Area of Port-au-Prince is served by approximately 75% of the total installed generation capacity in Haiti and by six generation plants (Péligre, Carrefour, Varreux I, II and III and E-Power). Five of the generation plants are independent power projects (IPPs) with a combined installed capacity of 103-MW and three are privately-managed under a tripartite agreement between Venezuela, Cuba and Haiti. The rest is EDH-owned and managed plants. In addition, 34 back-up generation units, accounting for an additional 83-MW, are distributed throughout the country and mainly serving Haitian towns and villages. The distribution network consists of approximately 900-kilometers (km) of primary network lines, 1200-km of secondary network lines, 18,000 poles and 4600 transformers (of which approximately 50% are privately-owned).
- 1.6 The EDH network is divided into four major geographic regions: (i) the Metropolitan Area of Port-au-Prince; (ii) the Greater North region (45-MW installed); (iii) the Greater South region (33.5-MW); and (iv) the Western Central region (4.4-MW). The EDH transmission network consists of two voltage levels (115-kilovolts (kV) and 69-kV) providing power from Péligre to the Port-au-Prince region and with one transmission substation, 7 distribution stations and 35 feeders of 12.47-kV. At all levels, i.e. generation, distribution and transmission, Haiti's grid is in an advanced state of deterioration. The 2010 earthquake worsened this situation and the sector's infrastructure is showing signs of aging, resulting from the effects of wear and tear, vandalism and the lack of both maintenance and reinvestment in new plant(s) and equipment. Several IDB-funded programs (see section below) are currently under execution to rehabilitate and restore both the Péligre hydroelectric power plant as well as the main distribution network and their corresponding substations and auxiliary facilities.
- 1.7 In the context of deep seated needs of physical infrastructure in generation and distribution of electricity, physical damage to the power sector infrastructure due to the 2010 earthquake was substantial. More significantly, the earthquake disrupted EDH's commercial operations, causing cumulated losses extending

¹ Population et ménages, estimés en 2009, Institut Haïtien des Statistiques et d'Informatique (IHSI), Mars 2009

² See IDBDOCS #1778249 and 36683404.

several months after the earthquake, and reaching US\$37 million, further weakening an already precarious financial situation. The earthquake also displaced hundreds of thousands of refugees within Port-au-Prince, leading to a permanent change in the demand pattern for electricity. Such displacement, which resulted in the resettlement of the population in safe and permanent places, is likely to result in the reallocation of the regional distribution of the population and thus impact the electricity demand.³ Short-term investment needs for rehabilitation and repair of different electricity assets amount to an estimated US\$75 million.

- 1.8 **Energy Sector.** The responsibilities for energy matters are currently shared among four ministries: (i) the Ministry of Public Works, Transportation, Energy and Communications (MTPTEC) which is responsible for energy policy and regulation, oversees the Energy Sector Management Unit (*Unité de Gestion du Secteur de l'Energie*) and has institutional mandate to oversee EDH, its main executing agency; (ii) the Ministry of Commerce and Industry (MCI) which is in charge of regulating petroleum products; (iii) the Ministry of Agriculture, Natural Resources and Rural Development (MARNDR) which is responsible for biomass affairs including wood fuel and biofuels; and (iv) the Ministry of Environment (MDE) which is in charge of protected areas. In addition, the Ministry of Economy and Finance (MEF) plays a critical role in providing funds for the energy sector and backstopping IPPs payments that EDH cannot cover. A Secretary of State to Energy (SSE) was recently appointed by the President despite the absence of a regulatory body for the energy sector as a whole.
- 1.9 The main utility, EDH, was established in 1971 as an autonomous state-owned, and vertically integrated company with monopoly of transmission, distribution and commercialization of electricity throughout the country. EDH's charter allows for private production of electricity. EDH reports to the MTPTEC whose Minister chairs the Board of Directors. As of November 2011, EDH had approximately 183,000 active customers⁴ with the residential and commercial categories accounting for approximately 98% of the customer base. Monthly billing ratio (i.e. electricity billed divided by electricity delivered) was approximately 40%; collection ratio close to 67% and cash recovery index (CRI) of 25%. Monthly revenues increased from US\$3.44 million in May 2010 to US\$5.29 million in April 2011, before taxes, due to additional energy supplied while monthly outstanding bills increased from US\$10.2 million to US\$12.7 million for the same period, (representing a 23% increase). EDH total current debt is estimated at US\$57.5 million and EDH monthly operating cost is approximately US\$16.5 million (composed of US\$10.3 million for IPPs payments; US\$3.4 million for operation and maintenance expenditures and US\$2.8 million for fuel costs and others). Total electricity losses are close to 70% of electricity production with commercial losses representing estimated revenue loss of US\$161 million/year for EDH.

³ Response to the humanitarian crisis in Haiti following the 12 January 2010 earthquake. Inter-Agency Standing Committee (IASC) July 2010

⁴ Inactive customers are disconnected customers with more than three (3) unpaid bills. EDH has currently 190,174 inactive customers.

- 1.10 The current tariff structure was introduced in 2005 and does not differentiate among operational costs of service such as generation, transmission and distribution. An 11% sales tax is added to all customer bills and a discount is offered to industrial customers for payment before the due date but with no penalty applied on late payments. In August 2009, EDH's tariffs almost doubled for all consumers, except residential consumers with monthly consumption below 200-kilowatt hour (kWh). Tariffs have remained unchanged since 2009 and no further tariff increase is envisioned at this stage. Average tariff is approximately US\$34.0/kWh for commercial customers and US\$35.0/kWh for industrial customers. Current tariffs do not reflect EDH cost structure and are insufficient to allow for effective cost recovery. Given this situation, part of the IDB Investment Loan Rehabilitation of Electricity Distribution System in Port-au-Prince (1813-SF/HA) has precisely focused on reducing electricity technical and commercial losses.
- 1.11 **Energy Sector Challenges.** The Energy Sector in Haiti faces a number of important challenges:
- 1.12 **MTPTEC lack of capacity to develop energy policy and perform planning and overseeing functions of the energy sector.** Several high-quality plans and diagnostics of the energy sector⁵ were produced by the MTPTEC during the last 15 years but with little capacity to implement recommendations made. Causes for this lack of progress include: (i) absence of corresponding implementation action/strategy plans; (ii) non-assignment of specific responsibilities; (iii) lack of decision-making power of MTPTEC; (iv) separation of functions unclear, making it difficult for the MTPTEC to develop institutional capacity; and (v) not taking into account energy stakeholders' participation (such as domestic users or potential customers). All these factors have contributed to the paralysis to advance the energy policy and energy sector reform agenda and have impeded the development of the institutional capacity of the MTPTEC.
- 1.13 In addition, given the GoH's conflicting roles as policy maker, owner and customer of the energy sector, planning and regulation functions within the sector are practically non-existent. Political instability and lack of sector leadership have similarly contributed to such situation.
- 1.14 Lastly, the lack of institutional capacity and absence of established planning and overseeing functions in the energy sector are further explained by the weak governance that has permeated in the sector. In a recent study carried out for the energy sector in Haiti,⁶ several indicators were used to assess the magnitude of the governance issue: (i) transparency; (ii) accountability; and (iii) responsiveness. In all three categories, results showed poor level of compliance for the energy sector. In the first and second cases (i and ii) as mentioned above, several causes explained the lack of transparency and accountability: (i) absence of financial audited statements; (ii) lack of public disclosure and publication of key sector

⁵ Project for Energy Policy (2008); Energy Sector Development Plan 2007-2017 (2006); Strategy for the Development of the Electricity Subsector 2006-2011 (2006) and Electricity Sector Analysis in the framework of poverty reduction (2006).

⁶ IDB, Haiti Energy Sector White Paper, December 2010.

information, including budget transfers to EDH, financial data and electricity losses;⁷ and (iii) inexistence of regular Board meetings of EDH. In the case of the third and last category mentioned above, the lack of responsiveness was attributed to EDH's customers having to rely on their own self-generation arrangements and use of high-cost small generations to cover their demand.

- 1.15 **Unsustainable financial and operational situation of EDH.** EDH is characterized by: (i) recurrent financial deficits where on a monthly basis, revenues have averaged US\$6 million vs. charges of US\$17 million (thus prompting the MEF to cover the shortfall difference on a monthly basis)⁸; (ii) weak operational performance due to energy thefts and unaccounted for electricity users representing 75% of electricity delivery to the grid;⁹ and (iii) poor resource management where organizational structure is not developed, career development policies and procedures obsolete and skill deficiencies present throughout the workforce. In addition, with no access to credit markets, operations at EDH rely on transfers from the GoH. The amount of transfers to the energy sector has risen from a microeconomic to a macroeconomic concern. At 2.77 percent of GDP¹⁰, such transfers are contributing heavily to the country's overall fiscal deficit, reaching 3.7 percent of GDP¹¹ in FY 2011 (see Table 1 below).

Table 1. Transfers to Energy Sector

	FY2010	FY2011*	FY2012
Percentage of GDP	1.44%	2.77%	1.33%
US\$ Million	94.12	204.30	110.52

* Source: IMF Includes transfers from Petrocaribe resources in FY2011.

- 1.16 In order to turn EDH into a financial and operational viable company, the proposal of putting in place a management contract had been discussed since 2004 but with little result. In the last two years and with the assistance of other multilateral organizations such as the Bank and the World Bank, several studies were carried out to assess which options could be implemented. The stronger option (that of a management contract) was left open and only the alternative of placing advisors within EDH was selected. Such advisors were subsequently appointed, in 2011, in the four key areas of EDH management, i.e. commercial, technical, planning and finance.

⁷ One of such key sector indicators is a *Tableau de Suivi* or control panel. The importance of having a control panel was signaled in 2006 in order to follow the financial flows associated with EDH operations. Such control panel is considered a useful and transparent instrument to visualize key operational aspects of the sector. Issues associated with producing the control panel include: (a) reliability of the figures shown in the control panel (i.e. measurement carried out using functioning equipment and which are not subject to tampering); (b) periodicity for producing it (allowing for early detection of anomalies if any and better following of the trend); and (c) analysis and feedback (providing MTPTEC and MEF with a policy framing instrument).

⁸ Financial simulations have indicated that in the event of optimal billing and recovery, EDH could cover its operational costs but not its investment needs.

⁹ Such losses represent the equivalent of US\$13 million/month of sales revenues based on an average tariff of US\$0.34/kWh.

¹⁰ That there's been an adjustment in the information presented, which may mean that estimates for FY2011 and the other years may not be directly comparable.

¹¹ It may be interesting to know that 3.7 is Fund's current (as of Feb 2012) estimate, and that it jumped 1.4 percentage points of GDP from data available as of Jan 2012 precisely because of corrections in transfers to EDH.

- 1.17 Parallel to the placement of advisors within EDH, the long-term solution of the implementation of a management contract was pursued with the support of the international financial community and particularly, that of the United States Government (USG) via the *United States Agency for International Development* (USAID)¹², and in May 2011, such management contract was endorsed by the GoH and EDH.¹³ The management contract called the “Transition Management Contract” (TMC) provides for an independent contractor (IC) which is technically and financially qualified, to assume operational responsibility of EDH with the goal of strengthening the latter’s capacity in the immediate term.¹⁴ The TMC for EDH overhaul provides for a three-phase approach to turn EDH into a sustainable enterprise: (i) first phase (Phase I) consisting of granting the IC access to EDH facilities, files and corresponding information; (ii) second phase (Phase II) where, based on the information reviewed and obtained during Phase I, the IC carries out a thorough due diligence analysis of EDH’s operational, commercial, financial and management performance,¹⁵ with the objective to support the GoH and Haiti’s sector stakeholders in making decisions and building consensus towards an integrated approach to address the sector’s key issues; and (iii) third phase (Phase III) where, based on the due diligence results from Phase II and action plan proposed, proceed with the implementation of such recommended measures.
- 1.18 Both Phases I and II under the TMC have been carried out and completed and Phase III is currently underway. It is in the context of this third phase, which is the most critical one to turn EDH into a financially and operational sustainable enterprise that an Operation Improvement Agreement (OIA) was crafted. Such OIA provides for the IC to undertake all essential improvements projects identified during Phase II and with the management authority to secure immediate term improvements and strengthen EDH’s capacity.¹⁶ It is within the context of the implementation of the OIA process, constituting the turning point of EDH transforming into a financial and operational viable company, that this operation, the second in a series of three separate yet independent programmatic policy based grants (PBG) operations, is being proposed and structured.
- 1.19 **Justification.** A programmatic approach to transform and reform the energy sector was selected given its flexibility to design and develop measures required

¹² See IDBDOCs# 36813982 providing rationale for selection of Management Contract modality to intervene in the energy sector and reflecting the consensus reached with USG, WB and IDB to reform EDH.

¹³ The effectiveness of the intervention selected (i.e. management contract model) is based on existing evaluations of interventions in a similar context to that of Haiti and where the applicability of the intervention can be replicated. This was the case of the state of Georgia. Georgia was a fragile state going through a period of nation building and characterized by a deteriorated infrastructure sector where reliable electricity had collapsed. The donor community had invested over US\$200 million and with little result. Through the implementation of the model of the management contract, financial performance was enhanced (collections climbed from the low teens to 100%; taxes were paid in full and positive cash flow was generated), turning the utility around and reaching operating profit, combined with improved operational performance. The utility was ultimately privatized in 2007 as part of a US\$417 million transaction value. The same model is being pursued and currently implemented in Haiti.

¹⁴ Similar intervention, using the model of a Management Contract, is currently being implemented in Haiti in the water sector and is considered very satisfactory at this stage (see IDBDOCS-#36805735-PMR HA-L1044).

¹⁵ See electronic link 13 Due Diligence Report EDH Operations Improvement Initiative, Haiti, November 9, 2011.

¹⁶ OIA represents traditional technical assistance contract with traditional corporate governance tools but implemented in an innovative fashion.

to reach the targets envisioned. The advantage of such approach is that it presents an opportunity to promote on-going policy dialogue between GOH, the IDB, and the rest of the international community¹⁷ and to support long-term policy reforms in the energy sector given that the institutional transformation is a long-term process.¹⁸ In this regard, the first operation was designed to set the stage for addressing political willingness and institutional challenges at both the sector level (i.e. MTPTEC) and executing agency level (EDH)¹⁹ with commitments that were demonstrated through the signing and implementation of two memorandums of understandings and Phase I of EDH revamping structure put in place. The second operation builds upon the first one and was tailored to focus mainly on stringent conditions associated with the restructuring measures required to make EDH a viable financial and operational company. The third and last operation is envisioned to provide for the remaining policy measures that will complete the energy reform process (see Annex II Policy Matrix).

- 1.20 During the first PBG, several key sector reform milestones were met²⁰: (i) signing and implementation of Memorandum of Understanding (MoU) between the GoH, IDB and the USG approving the strategy for reforming the regulatory and institutional framework in the energy sector; (ii) energy sector 2010 key indicators published; (iii) preparation and presentation to Cabinet of a bill of law penalizing electricity theft; (iv) signing of a MoU between the GoH and TetraTech for implementing the TMC, formerly called the Interim Management Contract (IMC) and defining financial and operational goals for EDH; (v) EDH reform process initiated through the signing of the TMC in May 2011; and (vi) implementation of the new Resource Management System (RMS) for EDH commercial and financial data (including, hardware and associated software as well as training for EDH's personnel in the financial, administrative and commercial areas).
- 1.21 This second operation of the PBG approach continues to address the energy sector challenges mentioned above and has been structured to focus on: (i) supporting the energy sector regulatory framework; (ii) fostering the continued public disclosure and publication of key sector information to increase transparency of the power sector; (iii) engaging EDH in annual financial reporting²¹; (iv) implementing the OIA; (v) supporting the incorporation of the new management team within the OIA; and (vi) implementation of the Commercial Management System (SGC) which will contribute to improved billing management, collection control and customer/training related activities. Evidence of the effectiveness of the intervention in the energy sector is based on existing evaluation of similar

¹⁷ This operation is aligned also with a framework for partnerships (Cadre de Partenariat) signed between the GoH and international organizations that constitute the donor community.

¹⁸ ESMAP. "Latin America and the Caribbean Region Energy Sector – Retrospective Review". Technical Paper 123/09.

¹⁹ Priority was given to MTPTEC and EDH in the reform of the energy sector given that both institutions are the key actors in such sector.

²⁰ See electronic link 7 for full assessment report of PBG I as required under the *Procedures for Processing and Monitoring Programmatic Policy-Based Loans (PBLs)* (CC-6005-1).

²¹ Audit firm for independent verification of EDH's annual financial reports is in the process of being engaged by EDH via the TMC independent operator.

- intervention in other contexts (see footnote 13) and existing similar management contract model in the water sector in Haiti (see footnote 14 and DEM).
- 1.22 Policy items such as the final legal and regulatory framework, energy agency creation, strategies and action plans to expand electricity coverage in rural and urban areas and adoption of new corporate management standards by EDH were originally envisioned to be presented during this second operation (see electronic link 8 for policy matrix comparison between HA-L1065 and HA-L1073). These items have been re-scheduled for the third and last PBG operation given the current political context in Haiti. Such flexibility in the design of a long-term reform process is the underlying rationale for selecting the programmatic modality given that such modality allows fine-tuning in the design of policy items for the subsequent programmatic operations and thus reflects the organic evolution that these reforms can experience until they materialize. In this regard and with the objective (i) to further accompany the GoH in this reform process, (ii) provide quality value-added, (iii) enhance the development impact of the series of the three PBG operations and (iv) carry out monitoring and evaluation activities with knowledge dissemination, a Technical Cooperation (TC) is being presented for approval together with this second operation (electronic link 6). Deliverables under the TC have been drafted and structured to complement all the policy and technical measures envisioned under the three PBGs and are being developed in close coordination with the GoH. The timing of the third PBG is currently scheduled for 2013/2014 and will be contingent upon deliverables being met.
- 1.23 Lastly and although not captured under this second operation, several major improvements have been made at the energy sector level, including: (i) commissioning of the Managerial System Technical Services (SGST) intended to manage outages in the distribution network from the time of the receipt of complaints at the call center until service is restored; and (ii) installation of a RMS funded through IDB and designed to provide reliable management information in the areas of accounting, budget, cash, human resources, inventory and procurement.
- 1.24 **Country Strategy for the Sector** The GoH has embarked on an integrated and coordinated program of reform and transformation of EDH and Haiti's energy sector to: (i) achieve greater energy access for rural and urban households; (ii) develop a sustainable mix of fuel sources, including Renewable Energy (RE) sources, to lower energy costs; (iii) improve the service reliability for new and existing commercial customers; and (iv) make a viable energy utility with reduced technical and commercial losses, efficient rates, and improved revenue collection. The modernization of EDH will follow recent successful experiences in transforming Haiti's water and telecommunications sectors which was carried out by Haiti's Council of Modernization of Public Enterprises (CMEP) and will be taken into account in finalizing EDH management structure after the implementation of the OIA.
- 1.25 **Alignment with IDB Country Strategy/Programming objectives.** The Country Strategy (CS) for Haiti (2011-2015) was approved in December 2011 (GN-2626).

Energy is one of the six sectors identified as a priority for IDB and the GoH. The main strategic objectives within the energy sector are: (i) increase government oversight and planning of the energy sector; (ii) improvement in operational efficiency of EDH and (iii) expand the coverage of electricity and energy services in urban and rural areas. The outcomes of the operation are linked to the country program strategy indicator of EDH achieving financial solvency (via financial information disclosure and increase of CRI). In addition, the operation also reflects the IDB's institutional priorities as outlined in the Report on the Ninth General Capital Increase for the Inter-American Development Bank (GCI-9) (AB-2764), as it contributes to the goal of "supporting development in small and vulnerable countries" (such as Haiti) and to that of "assisting borrowers in dealing with climate change, sustainable energy (including renewable) and environmental sustainability".

- 1.26 **Consistency with IDB Policies.** The Program is consistent with the Public Utility Policy (OP-708) and will support the GoH to reach the long-term objectives established in OP-708, even though Haiti's energy sector does not yet comply with all of such conditions. As envisaged under OP-708 and in line with the focus adopted under the first PBG, this second operation will continue the energy sector reform by: (i) pursuing the establishment of an institutional, legal and regulatory framework that will separate and define planning, operational and regulatory functions; (ii) fostering private sector involvement; and (iii) supporting transparency, accountability and sustainability of EDH. The policy letter from the GoH, along with the steps taken to revamp EDH, reflects the commitment of the GoH to continue the institutional transformation of the energy sector in implementing the corresponding reforms.
- 1.27 **IDB Operations in the Sector.** Prior to the earthquake, IDB supported Haiti's electricity sector by means of various operations, which are presented below. After the earthquake, emergency operations were approved to help Haiti overcome the immediate challenges. The execution of all these programs has been, in general, satisfactory (in terms of disbursement and continued progress) although at a slower pace than desired due mainly to management limitation at the executing agencies and the impact of the 2010 earthquake. The main IDB operations related to the power sector in Haiti are:
- (i) Rehabilitation of *Péligre* Hydroelectric Power Plant (2073/GR-HA) and its Supplementary Financing (2684-GR). Both operations, approved in 2008 for US\$12.5 million and US\$20 million in 2011 respectively (and with 10% disbursement combined), will enable Haiti to restore and rehabilitate *Péligre*'s original installed capacity of 54-megawatts, while preserving the dam's multi-purpose function of controlling floods and supplying water for irrigation in the Artibonite valley, the country's principal farming region.
 - (ii) Rehabilitation of Electricity Distribution System in *Port-au-Prince* (1813-SF/HA, converted to 2394/GR-HA). The objective of this operation for US\$18 million is to reduce electricity losses through physical rehabilitation of high-value distribution circuits, improving financial management, and improving the management of EDH, service quality and customer service.

Various components of this project have been bid and awarded, and disbursement levels have exceeded over 50% as of mid-March 2012;

- (iii) Rehabilitation of Electricity Distribution System in *Port-au-Prince* Phase II (2349/GR-HA). In June 2010, the IDB approved HA-L1035, for US\$14.0 million. The focus of the Phase II is to improve and expand electricity service to Haiti's industrial sector.
- (iv) Solar Energy Program (HA-X1018 and HA-X1019). The objective of this US\$1.5 million Investment Grant (IG) is to support Haiti's emergency responses to the earthquake by providing autonomous energy and lighting using solar applications. HA-X1018 has been disbursed 100% and HA-X1019 is close to 70% disbursement.
- (v) Artibonite 4C hydroelectric plant (HA-T-1150) currently under preparation and which will finance for up to US\$1.5 million the preparatory studies for the design, construction, operation and maintenance of Artibonite 4C, a 32-MW hydroelectric plant and its associated facilities including transmission line and access roads. The Artibonite 4C hydropower plant will use the waters of the Artibonite River to generate electricity, which will be used to supply the increased demand for electricity in Haiti.
- (vi) Institutional Transformation and Modernization Program of the Energy Sector (HA-L1065) approved and disbursed 100% in July 2011 for an amount of US\$35 million. This PBG operation was the first project in a series of three programmatic PBGs to transform Haiti's energy sector.
- (vii) Additional operations that supported the energy sector include: "Fiscal Sustainability I and II" projects of 2009 and 2010 (HA-L1029 and HA-L1034), designed as grant programs for fiscal support aimed to support fiscal and macroeconomic stability. These operations included policy measures related to the energy sector and lessons learned from previous engagement with the electricity sector are, that a project by project approach, is inadequate to meet the challenges posed by deep-seated institutional and structural weaknesses and that the resolution of these problems require a coordinated and systematic long-term institutional and financial commitment.

B. Objective, Components, and Cost

- 1.28 **Program Objective.** The overall objective of the Program is to support the GoH in developing an energy sector framework that will contribute to modernize the sector and increase the availability and affordability of energy in order to satisfy the population's needs and foster competitiveness. The specific objectives are to: (i) support the GoH's institutional capacity to define an energy policy and perform the planning and oversight of the energy sector, and (ii) turn EDH into a viable financial and operational company.
- 1.29 The proposed operation is the second of a three operation PBG programmatic approach and will provide fungible non-reimbursable resources in a single tranche for US\$12 million to support specific reforms.

- 1.30 **Components.** The Program will have the following components:
- 1.31 **Component 1. Macroeconomic Sustainability.** This component seeks to ensure that the GoH maintains a solid macroeconomic framework that is consistent with the objective of the proposed operation and the policy letter (electronic link 1).
- 1.32 **Component 2. Energy Sector Reform.** This component will continue to support the GoH, through the MTPTEC, in the establishment of an appropriate legal and regulatory framework suitable for the energy sector. It will focus on:
- (i) Energy policy draft bill of the GoH to establish a modern and efficient energy sector addressing the long-term needs of the country and which will cover: (a) regulatory aspects such as preparation of legislation, norms, policy-making and associated regulatory measures; (b) planning and supervision aspects; and (c) institutional aspects such as definition of responsibility to prepare strategic plans and programs, tariff structure and energy sector institutional organization.
 - (ii) Detailed disclosure and publication of energy sector indicators (on the MEF webpage) in order to increase transparency of financial transfers within the energy sector and which encompass, amongst others: (a) budget transfers to EDH (including Petrocaribe); (b) hour/energy supplied to Port-au-Prince and provinces; (c) monthly delivered gas transportation volume; (d) gas transportation cost (gourdes/gallons); (e) electricity produced, gas consumption and thermal power plants specific consumption; and (f) service costs of IPPs.
- 1.33 For the proposed operation, the following conditions are being met: (i) presentation of an energy policy draft bill of the GoH; and (ii) publication of key sector information to increase transparency.
- 1.34 **Component 3. Modernization of EDH.** In line with the first PBG operation, this component aims to improve oversight of corporate governance at the enterprise level to transform EDH into a viable operational and financial company.²² Component 3 will focus on:
- (i) Implementation of Phase III of the TMC under the OIA pursuant to which an independent qualified contractor (IC) will undertake essential improvements for EDH to achieve commercial loss reduction, increase revenues and improve electricity services for households and businesses. This OIA is accompanied by a performance plan benchmarking results to be obtained in specific areas²³ such as: (a) cash recovery index (CRI) increase to 48%; (b) 60,000 active customers added to EDH customer

²² Other items that were originally envisioned to be met in this second tranche such as (i) CMEP selecting the alternative for private sector participation in EDH and (ii) EDH's general direction to hire an audit for independent verification of EDH annual financial reports will be presented during the third and last PBG operation given that the new management structure put in place at EDH under the OIA will greatly impact how items (i) and (ii) above will be attained. The engagement of the audit firm for EDH, although currently underway, is also envisioned to be presented during the third and last PBG operation.

²³ Such benchmarking results are not a trigger for the 2012 PBG.

base; (c) increase of EDH savings to financially sustainable levels; and (d) holding of regular EDH board meetings, amongst others.

- (ii) Incorporation of new management structure where a team of utility specialists will be reporting directly to EDH Board of Directors and with the authority to lead and manage business initiatives (including operations and investments), reduce commercial losses and improve EDH financial performance while providing on-the-job training for EDH counterparts. It will also include the establishment of the Special Operations Improvement Committee (SOIC) with delegated authority from the EDH Board to make corresponding corporate, financial and operational decisions.
 - (iii) Implementation of the SGC which will contribute to improved billing management, collection control and customer/training related activities.
- 1.35 For the proposed operation, the following is being met: (i) OIA signed between GoH, EDH and Tetra Tech; (ii) appointment and incorporation of new management at EDH under the OIA modality; and (iii) SGC under implementation.

C. Key Results Indicators

- 1.36 **Expected Results.** The Program should lead to: (i) improved institutional capacity of the sector; and (ii) better management and operational efficiency of EDH. The result framework matrix (electronic link 3) presents the expected outcomes and result indicators linked to the Program with their corresponding baselines and targets. The indicators have been analyzed with the GoH and respective entities involved in the Program and the implementation of the policy measures will be further accompanied by technical assistance (electronic link 6) to attain such results.
- 1.37 The sole implementation of the policy measures contemplated as part of the proposed operation does not imply the fulfillment of results at the end of the cycle. Policy measures are necessary but insufficient and complementary actions including public and private investments are required to attain expected results.

D. Economic Rationale

- 1.38 A cost-benefit analysis (CBA) has been performed to assess the proposed Program considering that: (i) there is a link between policy measures and on the ground results from the implementation of the Program; and (ii) that the Program's ultimate objective is to achieve these specific results. This leads to the identification of six specific Sub-Programs (SP), each of which corresponds to one of the expected results outlined in Section I. C of the CBA (electronic link 4 <http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36746936>).
- 1.39 The general evaluation methodology applied in all cases estimates net benefits by comparing the situations with and without the respective SP. The main direct benefit of SPs which increase energy availability resides in the economic value of the incremental energy as estimated through the consumer surplus and the reduction in power cuts. For SPs where the benefit is due to a better resource allocation (as in the case of technical losses), benefits are valued at the marginal

cost of generation. The proposed intervention will also provide important benefits to EDH if losses can be cut and collections can be improved. Economic costs correspond to the estimated investment needed to implement the SP. The valuation of the flow of costs and benefits yields the Net Present Value (based on a 12 percent discount rate) and the Internal Rate of Return, which are used to judge the desirability of the SPs. These conditions yield to positive economic indicators, which justified the project where economic indicators were calculated for each SP and results show positive Net Present Value (NPV), CB ratio larger than 1 and ERR larger than 12%.

- 1.40 Additionally a sensitivity analysis for each SP was conducted as to estimate the effects of the underlying assumptions and results were positive even considering substantial changes in the main variables that might affect this project such as: (i) willingness to pay for electricity; (ii) level of technical losses; and (iii) cost of interventions.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financial Instruments and Contractual Conditions

- 2.1 This Program is the second of three PBGs under a programmatic approach. The subsequent and last operation is planned for 2013/2014. This second operation will draw upon the resources of the IDB Grant Facility in the amount of US\$12 million (representing 1.9% of the projected fiscal deficit FY 2011), with disbursement scheduled no later than third quarter of 2012, upon execution of the respective contract and fulfillment of the general and policy reform conditions agreed upon with the GoH and included in the Policy Matrix, Results Framework Matrix, and Verification Matrix.

B. Environmental and Social Safeguard Risks

- 2.2 In accordance with Directive B.13 on Environmental Policy and Safeguards Compliance, PBGs are not classified. The Program involves sector policy and institutional strengthening activities; hence, no direct negative environmental or social impacts are expected as a result of the Program. Nonetheless, the Program is expected to set the foundation for future energy generation projects such as hydroelectric power plants that are likely to have environmental implications and which will be addressed (e.g., relocations, reservoirs, visual impact, amongst others) at the time that these projects are analyzed.

C. Other Key Risks and Issues

- 2.3 Risks identified include: (i) not meeting the objectives of the programmatic series of the three PBGs due to lack of planning and deficient capacity execution; (ii) lack of financial sustainability of EDH which will continue to rely on the MEF to cover power purchase agreements payments shortfalls; (iii) resistance of private sector parties to energy sector transparency and disclosure of financial information; (iv) non-adoption of legal and regulatory framework and bill(s) by the Parliament; (v) non-implementation of CMEP recommendations; (vi) lack of coordination between MEF and MTPTEC; (vii) lack of follow-up measures to

implement CRI within EDH; (viii) weak monitoring capacity of EDH; and (ix) lack of fiscal accountability between MEF, MTPTEC and EDH. The general risk qualification is medium-high. Mitigation measures detailed in the Risk Matrix include: (i) holding of regular meetings with EDH and MTPTEC; (ii) coordination with the donor community, and (iii) monitoring measures proposed in the M&E plan (electronic link 5). All policy conditions are expected to be fulfilled prior to the presentation of the Program to the IDB's Board of Executive Directors, hence execution risk is not foreseen.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary Implementation Arrangements

- 3.1 **Beneficiary and Executing Agency (EA).** The Beneficiary is the Republic of Haiti while the Executing Agency (EA) will be the MEF. The policy matrix has been agreed and will be monitored through the MEF. The EA will work together with the MTPTEC and EDH to accomplish the conditions agreed in the Policy Matrix. The MEF among others, will: (i) provide evidence that the conditions have been met, and any other reports that the IDB may need to approve the disbursement; (ii) support the actions required to fulfill the third and last operation; and (iii) once the disbursement of the Program is completed, gather and prepare the required information and performance indicators so that the IDB and GoH can follow up, measure and evaluate the results of the Program.

B. Monitoring and Evaluation

- 3.2 The commitments identified in the Policy Matrix and Verification Matrix and the indicators in the Result Framework Matrix establish the key parameters for the supervision and evaluation of program results. MEF, MTPTEC and EDH will be responsible for the compilation, analysis and delivery of verification reports. The monitoring and impact evaluation plan presents the evaluation methodology, the indicators to be assessed, the institutions responsible for data collection, milestone timeline and budget (US\$230,000).²⁴ Work program energy surveys and ex-post CBA will be used to evaluate the effectiveness of the Program. At the end of the third PBG, a Project Completion Report (PCR) will be prepared to evaluate the impact and results obtained.

IV. POLICY LETTER

- 4.1 The IDB has agreed with GoH on the macroeconomic and sector policies included in the Policy Letter that will be presented by the MEF, describing the main components of the GoH's strategy for the Program and reaffirming its commitment to implement the agreed activities with the IDB.

²⁴

M&E budget is envisioned to be financed through HA-T1168.

Development Effectiveness Matrix				
Summary				
I. Strategic Alignment				
1. IDB Strategic Development Objectives		Aligned		
Lending Program		Supports lending to small and vulnerable countries.		
Regional Development Goals		Percent of households with electricity.		
Bank Output Contribution (as defined in Results Framework of IDB-9)		Contributes to output: Km of electricity transmission and distribution lines installed or upgraded.		
2. Country Strategy Development Objectives		Aligned		
Country Strategy Results Matrix		GN-2465-2	Increase Government oversight and planning of the energy sector.	
Country Program Results Matrix		GN-2661-1	The intervention is not included in the 2012 Country Program Document.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)				
II. Development Outcomes - Evaluability		Highly Evaluable	Weight	Maximum Score
		9.1		10
3. Evidence-based Assessment & Solution		9.2	25%	1
4. Ex ante Economic Analysis		10.0	25%	1
5. Monitoring and Evaluation		7.1	25%	1
6. Risks & Mitigation Monitoring Matrix		10.0	25%	1
Overall risks rate = magnitude of risks*likelihood		Low-Medium		
Environmental & social risk classification		B.13		
III. IDB's Role - Additionality				
The project relies on the use of country systems (VPC/PDP criteria)				
The project uses another country system different from the ones above for implementing the program				
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:				
Gender Equality				
Labor				
Environment				
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		Yes	An Energy White Paper was financed by means of HA-T1130. A TC (HA-T1168) will support the analysis and development of a new legal and institutional framework as well as the development of Rural and Urban Energy Access Strategies which will increase the likelihood of success of the project	
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan.				

This is the second project in a series of three programmatic loans. This program is required by Haiti in order to move forward towards increasing energy generation capacity, expanding the coverage of electricity in rural areas and Port-au-Prince, and increasing urban household energy consumption efficiency. The specific objectives of the program are to: (i) develop the GoH's institutional capacity to define an energy policy and perform the planning and oversight of the energy sector, and (ii) convert the national electric utility, EDH, into a company with financial and operational viability.

The POD presents the problems to be addressed by the project as well as the factors causing them, all of which are based on empirical evidence. The magnitudes of the problems are provided and the proposed interventions are linked to the problems identified in the diagnosis.

The results matrix has vertical logic. The impacts are clearly presented and have SMART indicators. The outcomes are also clearly presented but not all outcomes have indicators. There is no indicator for the outcome "better planned and supervised energy sector." The proposed indicator does not measure this expected result. Not all indicators are SMART since they are not specific and thus not measurable. The indicator "EDH cumulative target savings" is not clear. In addition, the baseline does not give any indication of the current savings situation of EDH and the target does not show how the present savings situation will change after the project. In the case of the indicator related to active customers, the baseline should be the active customers over total customers presently in EDH, and the target this ratio expected in 2013/14 and 2015. With respect to the indicator "% of EDH financial activity reported in annual financial statements," the term "financial activity" would need to be specified. The outputs are clearly specified but "implementation of the SGC" does not have an indicator. All impact, outcome and output indicators have baselines, targets and sources of information. Given that this is a PBL, and the actual costs of the project are not known and have no relation with the loan size, the program's cost are not broken down by outputs as presented in the results matrix.

The program was analyzed using a cost-benefit analysis. The economic benefits are clearly spelled out and the costs reflect real resource costs to the economy. The assumptions are spelled out and a sensitivity analysis of the assumptions was undertaken. The project has a monitoring and evaluation plan that follows the DEM guidelines. The operation will be evaluated using a reflexive methodology and an ex-post cost-benefit analysis.

Finally, the risks of the project are rated for magnitude and likelihood. They include mitigation measures and indicators to monitor the implementation of these measures.

POLICY MATRIX			
Objectives	Conditions for 1 st Policy Based Grant (2011)	Triggers Mechanisms for 2 nd Policy Based Grant (2012)	Triggers Mechanisms for 3 rd Policy Based Grant (2013/2014)
Objective of the program: The overall objective is to support the Government of Haiti (GoH) in developing an energy sector framework that will contribute to modernize the sector and increase the availability and affordability of energy in order to satisfy the population's needs and foster the competitiveness.			
Macroeconomic Framework: Maintain macroeconomic sustainability.	Sound macroeconomic framework maintained in accordance with the objectives of this Program.	Sound macroeconomic framework maintained in accordance with the objectives of this Program.	Sound macroeconomic framework maintained in accordance with the objectives of this Program.
Energy Sector Reform: Support the GoH's institutional capacity to define an energy policy and perform the planning and oversight of the energy sector.	A strategy is approved for reforming the regulatory and institutional framework focusing on: (i) new institutional arrangement for planning, policy-making and regulation; and (ii) definition of private sector participation strategy.	Energy policy draft bill of the GoH to establish a modern and efficient energy sector addressing the long-term needs of the country and which will cover: (i) regulatory aspects such as preparation of legislation, norms, policy-making and associated regulatory measures (ii) planning and supervision aspects, and (iii) institutional aspects such as definition of responsibility to prepare strategic plans and programs, tariff structure and energy sector institutional organization.	A proposal for a new legal and regulatory framework for the sector submitted to Parliament. Energy agency/entity which will plan and regulate the electricity sector agreed and created.
			Strategies and action plans for the expansion of electricity coverage (including introduction of modern energy) in rural and peri-urban areas completed and initiated.
	Publication of key sector information to increase transparency of the power sector including budget transfers to EDH, the financial data and electricity losses for the year 2010.	Detailed disclosure and publication of energy sector indicators (on the MEF webpage) in order to increase transparency of financial transfers within the energy sector. Such energy sector indicators are prepared and published up to 3 rd quarter 2011 through the <i>Tableau de Suivi</i> (control panel) of the energy sector and will include, amongst others: (i) budget transfers to EDH (including Petrocaribe) (ii) hour/energy supplied to Port-au-Prince and provinces (iii) monthly delivered gas transportation volume (iv) gas transportation cost (gourdes/gallons) (v) electricity produced, gas consumption and thermal power plants specific consumption, and (vi) service costs of IPPs.	<i>Tableau de Suivi</i> (control table) of the power sector is prepared and published each quarter.
	A bill of law penalizing electricity theft (<i>Loi Pénalisant le Vol de l'Électricité</i>) has been prepared and presented to Cabinet.		Bill of law is submitted to Parliament.

POLICY MATRIX			
Objectives	Conditions for 1 st Policy Based Grant (2011)	Triggers Mechanisms for 2 nd Policy Based Grant (2012)	Triggers Mechanisms for 3 rd Policy Based Grant (2013/2014)
Modernization of EDH: Turn the national utility, EDH, into a viable financial and operational company.	<p>Agreement on an Action Plan for Improving the Operational and Financial Performance of the Power Sector including short-term and medium-term proposal for EDH consisting:</p> <p>(i) A Memorandum of Understanding (MoU) between the GoH and Tetra Tech for implementing the Interim Management Contract (IMC) and defining financial and operational goals for EDH in the short run has been signed.</p> <p>(ii) The GoH has officially requested the <i>Commission de Modernisation des Entreprises Publiques</i> (CMEP) to start the process to reform EDH in order to ensure a sustainable operation of EDH in the long-term and foster the participation of the private sector.</p>	<p>Implementation of Phase III (third and final phase) of Transition Management Contract (formally IMC) under the Operation Improvement Agreement (OIA) pursuant to which an independent qualified contractor will undertake essential improvements for EDH to achieve commercial loss reduction; increase revenues and improve electricity services for households and businesses. The OIA must be accompanied by a performance plan benchmarking results to be obtained in specific areas and which are¹:</p> <p>(i) cash recovery index (CRI) increase to 48%;</p> <p>(ii) 60,000 active customers added to EDH customer base;</p> <p>(iii) increase of EDH savings to financially sustainable levels, and</p> <p>(iv) holding of regular EDH board meetings.</p> <p>Incorporation of new management structure where a team of utility specialists will be reporting directly to EDH Board of Directors and with the authority to lead and manage business initiatives (including operations and investments), reduce commercial losses and improve EDH financial performance while providing on-the-job training for EDH counterparts. It will also include the establishment of the Special Operations Improvement Committee (SOIC) with delegated authority from the EDH Board to make corresponding corporate, financial and operational decisions.</p>	<p>CMEP selects the alternative for private sector participation in EDH and initiates corresponding process.</p> <p>EDH General Direction hires an audit firm for independent verification of EDH's annual financial reports to be presented to the Board of Directors.</p> <p>Quality of services standards and performance criteria for electricity providers established.</p>
	<p>New Resource Management System of EDH commercial and financial data, including, the hardware and the associated software has been implemented and the training for EDH financial, administrative and commercial personnel has begun.</p>	<p>Implementation of the Commercial Management System (SGC) which will contribute to improved billing management, collection control and customer/training related activities.</p>	<p>Adoption and maintenance of new corporate management standards by EDH such as (i) ongoing publication of financial statements; (ii) publication of past statements 2005 to 2011); and (iii) monitoring of agreed operational indicators.</p>

¹

Such benchmarking results are not a trigger for the 2012 PBG.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/12

Haiti. Nonreimbursable Financing _____/GR-HA to the Republic of Haiti
Institutional Transformation and Modernization Program
of the Energy Sector - II

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, as Administrator of the IDB Grant Facility (hereinafter referred to as the "Account"), to enter into such contract or contracts as may be necessary with the Republic of Haiti, as Beneficiary, for the purpose of granting it a nonreimbursable financing to support the execution of the institutional transformation and modernization program of the energy sector - II. Such nonreimbursable financing will be for an amount of up to US\$12,000,000 that form part of the Account, and will be subject to the Terms and Financial Conditions and the Special Contractual Conditions in the Project Summary of the Grant Proposal.

(Adopted on _____)

LEG/SGO/CAN/CCB/IDBDOCS#36815816
HA-L1073