HAITI

INSTITUTIONAL TRANSFORMATION AND MODERNIZATION PROGRAM OF THE ENERGY SECTOR – III

(HA-L1083)

GRANT PROPOSAL

This document was prepared by the project team consisting of: Fritz Gerval Octave (ENE/CHA) and Natacha Marzolf (INE/ENE) Team Leaders; Pierre Kenol Thys (ENE/CHA); Alejandro Melandri (INE/ENE); Virginia Snyder (INE/ENE); Letizia Sosa (INE/ENE); Marion Le Pommelec (RND/CHA); Daniel Bayes (PDP/CHA); Javier Jimenez (LEG/SGO) under the supervision of Leandro Alves, Energy Division Chief (INE/ENE) and Gilles Damais, IDB Representative a.i. (CDH/CHA).

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### Electronic Links

**REQUIRED**

1. Policy Letter
   

2. Means of Verification Matrix
   

3. Results Framework Matrix
   

4. Independent Macroeconomic Assessment
   

**OPTIONAL**

   

6. Comparison Matrix (HA-L1065, HA-L1073 and HA-L1083)
   

7. Monitoring and Evaluation Plan
   

8. PDNA, Assessment of damage, losses, general and sector needs.
   

   
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 Eléctricité d’Haïti
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 Sector
IPP Independent Power Producers
IHSI Institut Haitien des Statistiques et d’Informatique
KfW Kreditanstalt für Wiederaufbau
Km Kilometers
kV kiloVolt
kWh Kilowatt hour
LAC Latin America and the Caribbean
LPG Liquefied Petroleum Gas
MARND 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
<table>
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<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tr>
<td>MTPTEC</td>
<td>Ministry of Public Works, Transportation, Energy and Communications</td>
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<tr>
<td>MWh</td>
<td>Megawatt hour</td>
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<tr>
<td>NPV</td>
<td>Net Present Value</td>
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<td>OC</td>
<td>Ordinary Capital</td>
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<td>OIA</td>
<td>Operations Improvement Agreement</td>
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<td>PaP</td>
<td>Port-au-Prince</td>
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<td>PBG</td>
<td>Policy Based Grant</td>
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<td>PCR</td>
<td>Project Completion Report</td>
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<td>PPA</td>
<td>Power Purchase Agreements</td>
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<td>PPIAF</td>
<td>Public-Private Infrastructure Advisory Facility</td>
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<td>PPP</td>
<td>Public Private Participation</td>
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<td>PREPSEL</td>
<td>Project Electricity Loss Reduction</td>
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<td>RE</td>
<td>Renewable Energy</td>
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<tr>
<td>ROT</td>
<td>Repair, Operate and Transfer</td>
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<tr>
<td>RMS</td>
<td>Resource Management System</td>
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<td>SGC</td>
<td>Commercial Management System</td>
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<td>SGST</td>
<td>Managerial System Technical Services</td>
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<td>SOIC</td>
<td>Special Operations Improvement Committee</td>
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<td>SSE</td>
<td>Secretary of State to Energy</td>
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<td>SP</td>
<td>Sub-Program</td>
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<tr>
<td>T&amp;D</td>
<td>Transmission and Distribution</td>
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<td>TC</td>
<td>Technical Cooperation</td>
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<td>TMC</td>
<td>Transition Management Contract</td>
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<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
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<td>USG</td>
<td>Government of United States</td>
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**PROJECT SUMMARY**

**HAITI**

**INSTITUTIONAL TRANSFORMATION AND MODERNIZATION PROGRAM OF THE ENERGY SECTOR – III (HA-L1083)**

<table>
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<tr>
<th>Financial Terms and Conditions</th>
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<tr>
<td><strong>Beneficiary:</strong> Republic of Haiti</td>
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<tr>
<td><strong>Executing Agency:</strong> Ministry of Economy and Finance (MEF)</td>
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<tr>
<td><strong>Source</strong></td>
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<tr>
<td>IDB (Grant Facility)</td>
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<tr>
<td>HRF</td>
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<td>Local</td>
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<td><strong>Total</strong></td>
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**Project at a Glance**

**Project Objective/Description:**

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.

The proposed operation is the third of a series of three operation Policy-Based Grants (PBG) under a programmatic approach and will provide fungible non-reimbursable resources in a single tranche for US$25 million to support specific reforms (US$22 million from IDB Grant Facility and US$3 million from HRF).

This third PBG continues to support actions initiated in the first PBG and second PBG and adds stronger conditions, particularly concerning the submission to the Haitian Parliament of the law “Loi Pénalisant le Vol de l’Électricité” as well as the adoption of corporate standards management for Electricity d’Haiti (EDH) to foster transparency and corporate governance.

The specific objectives of this third 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’Haiti (EDH) into a viable financial and operational company.

**Special contractual clauses:**

Disbursement of the loan proceeds will be subject to completion of policy reform measures as specified in the Policy Matrix (Annex II), Means of Verification Matrix (electronic link 2); Results Framework Matrix (electronic link 3), and Policy Letter (electronic link 1).

**Exceptions to Bank policies:** None

| Project consistent with Country Strategy: | Yes [ X ] | No [ ] |
| Project qualifies for: | SEQ[ ] PTI [ ] Sector [ ] Geographic[ ] Headcount [ ] |
| **Procurement:** | N/A |
I. DESCRIPTION AND RESULTS MONITORING

A. Background, Proposal and Rationale

1.1 The proposed program is the third and final operation of a series of three Policy-Based Grants (PBG) under a programmatic approach 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 competitiveness. The first PBG (2548/GR-HA) was approved in 2011 for an amount of US$35 million and the second PBG (2735/GR-HA) was approved in July 2012 for an amount of US$12 million. Both PBG were disbursed 100% on their respective year of approval. The present program (HA-L1083) will be financed from the Inter-American Development Bank (IDB) Grant Facility resources in the amount of US$22 million and from the Haiti Reconstruction Fund (HRF) in the amount of US$3 million. Disbursement is expected in 2013, once the policy reforms conditions specified in the Policy Matrix agreed upon with the GoH have been met.

1. Macro-economic Outlook

1.2 In the last few years, and considering the shocks caused by an earthquake in 2010 and a severe hurricane season in 2012 (Isaac and Sandy), economic activity, program implementation under the Extended Credit Facility (ECF) program with the International Monetary Fund (IMF), and macroeconomic policies have been satisfactory. Early March 2013, the IMF’s Board approved the ECF’s fifth review, and produced Haiti’s Article IV consultation report.

1.3 Economic growth has resumed after the earthquake and Gross Domestic Product (GDP) increased at a rate of 5.6% in Fiscal Year (FY) 2011 with average inflation of 7.4%. Harder than expected conditions for agriculture (drought then two severe hurricanes) and slower than anticipated capital expenditures reduced growth to 2.8% in 2012.

1.4 The country’s fundamental macroeconomic variables remain the same: single digit inflation that oscillates around food and commodity prices and “twin” fiscal and external deficits that despite growing to 5.7% of GDP and 4.5% of GDP respectively in FY 2012 (from 3.7% of GDP and 3.5% of GDP, respectively in FY 2011) are considered acceptable in view of the needs associated with reconstruction.

1.5 Other key macroeconomic indicators are also well behaved. Despite the country’s need for foreign currency, remittances, international aid and foreign direct investment contributed to overall balance of payments surplus in FY 2012. Hence international reserves increased and reached six months of imports. It is also

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1 In July 2010, the IMF approved a three-year ECF arrangement to help the GoH cope with the crisis.
2 Fiscal Year starts in October of the calendar year and ends on September 30th of the following year.
3 Increase of Consumer Price Index (CPI) at end of period (September 2011) was 10.4%, showing acceleration of prices. Decreasing food prices in the last months of 2011 have brought inflation back to one digit.
worth noting that Haiti’s debt, despite being relatively low in absolute terms after bilateral and multilateral debt cancellation in the recent past\(^4\) (reaching US$1.042 billion at the end of FY 2012) is still considered to be high risk under the framework of the Debt Sustainability Analysis undertaken by the IMF\(^5\).

1.6 Among the priorities for the GoH in 2013, the economic structural reform agenda will still focus on fiscal issues: (i) further raising domestic revenue from tax and customs offices; (ii) improving public financial management and economic governance; (iii) increasing development spending; and (iv) improving and expanding public investment management so that domestically financed capital spending is increased by 2 percent (%) of GDP (to 9% of GDP). In addition, the GoH will continue to strengthen market-based operations and liquidity management as means to stabilize further monetary indicators and improve monetary policy effectiveness. It will also enhance the country’s appeal to investment aiming at reducing the external gap, especially in the context of reducing foreign aid (which has declined from US$1.446 billion in FY 2011 to US$988 million in FY 2012). Forecasts for 2013 indicate stronger economic growth (+6.5% increase in GDP), with single digit inflation (5% end of period) and fiscal and external deficits a little bit above 5% of GDP.

1.7 The Independent Macroeconomic Assessment (IMA) conducted by the IDB thus concludes that the macroeconomic framework of Haiti is appropriate to carry the reforms proposed under this operation.

2. Energy Sector Characteristics, Advancement and On-going Challenges

1.8 The Power Sector. Haiti lacks conventional energy resources (all oil products are imported). The GoH is still subsidizing the sector (US$170 million in FY 2011-2012) and supporting the recovery from damages caused by the 2010 earthquake and subsequent storms. After the 2010 earthquake, the GoH made it a priority to repair and upgrade five substations, restore the generation capacity of the Péligre Hydroelectric Power Plant and upgrade the power transmission line to Port-au-Prince and the key circuits serving the capital region’s electricity distribution network.

1.9 The sector is characterized as follows: (i) more than 70% of the population without access to electricity (coverage only of about 12.5% of the population; 25% if illegal connections are accounted for); (ii) electricity prices among the highest in the world; (iii) low electrification rates (34% at the national level) and (iv) inadequate and insufficient delivery service. 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).

\(^4\) Cancellation, in June 2009, of US$1.2 billion of debt under the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiative (MDRI). After the earthquake in 2010, Haiti obtained additional debt relief from the IDB, Venezuela, and the IMF for US$1.1 billion.

\(^5\) The analysis is based in debt and debt services projections under an estimated macroeconomic framework. Haiti’s debt trajectories surpass certain thresholds that are considered high risk zones and hence the classification of its debt risk. In particular, the present value of public external debt to exports goes beyond 100%.
Electricity generation consists of Péligre Hydroelectric Power Plant with 54-MW installed, seven small hydroelectric plants (serving 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 (Peligre, Carrefour, Varreux I, II and III, and E-Power). 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).

1.10 The 2010 earthquake worsened this situation and the sector’s infrastructure has shown 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 paragraph 1.27 below) are currently under execution to repair and upgrade such aging infrastructure, namely the rehabilitation of the Péligre hydroelectric power plant (PHP) (HA-L1032 and HA-L1038), Port-au-Prince main distribution network and associated substations (HA-L1014 and HA-L1035) and the Peligre Transmission Line (HA-G1030) which is an operation to be financed through HRF resources and currently under preparation.

1.11 **Institutional Structure.** Institutional responsibilities for energy matters are shared among the following: (i) the Ministry of Public Works, Transportation, Energy and Communications (MTPTEC) together with the Minister Delegated for Energy Security (since July 2012), is responsible for energy policy and regulation and oversees the Energy Sector Management Unit (Unité de Gestion du Secteur de l’Énergie) as well as EDH, its main executing agency (the Minister of the MTPTEC is the Chairman of EDH Board); (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 power purchase agreements (PPA) payments that EDH cannot cover. 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 and EDH reports to the MTPTEC. Tariffs have remained unchanged since 2009 with average tariff of approximately US¢34.0/kWh for commercial customers and USS¢35.0/kWh for industrial customers.

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6 See IDBDOCS #1778249 and 36683404.
7 (i) Carrefour: thermal generation plant, installed capacity 49.5-MW, and available capacity 10-MW; (ii) Varreux I and Varreux II: thermal generation, installed capacity 40-MW, and available capacity 35-MW; (iii) Varreux III: thermal generation plant, installed capacity 18-MW, and available capacity 14-MW; (iv) E-Power: installed capacity 30-MW, and an available capacity 30-MW, (v) Alexandre Pétion: installed capacity 34-MW; and (vi) Péligre: Hydroelectric Plant, installed capacity 54-MW.
8 See footnote 24.
1.12 **Energy Sector Challenges.** As mentioned above, aging infrastructure is one of the two key challenges that the energy sector is facing and for which, IDB together with the international community has been trying to address through various investment grant operations. In addition, a second and most fundamental issue relates to the overall sector transformation and modernization, namely the one related to developing a regulatory framework for the sector and fostering a financially and operationally performing utility (EDH). Both of these points have been the main components for the programmatic series to reform and modernize the energy sector in Haiti financed by the Bank in the last two years. During the first and second PBG, a number of reform items were achieved under these components, which significantly contributed to set the tone of the reform. These efforts, which constitute a step in the right direction, need to be pushed further and continue to overcome the following challenges:

1.13 **Energy Policy Still Incipient.** Prior to the current government embarking on an ambitious and comprehensive reform of the energy sector (as one of the five priorities set for the country together with education, environment, employment and rule of law), the energy sector was defined as a fragmented sector. Causes for this situation included: (i) unclear regulatory framework (energy matters are under the umbrella of the MTPTEC but with no actual involvement of such Ministry); (ii) lack of accountability (financial statements were not prepared after 2005, no public disclosure of key sector information including budget transfers and plan to move towards financial sustainability of EDH); and (iii) murky definition of roles of institutional actors, lack of coordination and insufficient capacity to manage the energy sector. In particular, the lack of a clear regulatory framework defining an energy policy and associated sub-policy items (such as electricity) remained untouched.

1.14 In 2011, through the support of the first PBG operation to reform the energy sector, subsequently followed by a second PBG in 2012, several key milestones were achieved: (i) a strategy for reforming the regulatory and institutional framework was approved in 2011; (ii) an energy policy draft bill to establish a modern and efficient energy sector addressing the long-term needs of the country (covering regulatory, planning, institutional and supervision aspects) was presented to Cabinet; and (iii) a Memorandum Of Understanding between the MTPTEC, EDH and the MEF to establish a mechanism for budgetary transfers to the electricity sector was signed. All of these items constitute fundamental advances that are necessary for the transformation of the sector but remain still weak and insufficient.

1.15 **Limitations on Energy Sector Institutional Capacity and Oversight/Planning Functions.** Through the presentation to Cabinet of the Energy Draft Bill of Law (which was one of the conditionalities under the second PBG), institutional and supervision aspects were covered. Notwithstanding the latter, the institutional

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11 See Plan d’Action 2012-2013 (EDH) and Protocole d’Accord entre MEF et EDH.
architecture of the energy sector is still severely impacted by the fragmentation of the energy sector stakeholders and actors (MTPTEC, EDH and MEF, in particular) as mentioned above. Causes for such limitation include: (i) lack of proper entity/energy desk to coordinate energy matters; (ii) lack of consensus on creation of a regulatory body; and (iii) no institutional figure formally appointed to exclusively oversee energy policy and activities.

1.16 Need to Strengthen Corporate Governance. Corporate governance, transparency and accountability are key elements to develop, build and maintain a sustainable sector. As indicated in the second PBG operation, main indicators for the lack of corporate governance were: (i) transparency; (ii) accountability; and (iii) responsiveness. Causes of lack of corporate governance were namely those associated with the lack of publication and disclosure of key financial and operational information as well as the need for EDH to hold regular Board meetings. For the past two years, the GoH has been committed to this particular item and has worked on creating corporate governance in terms of instrument and institutional culture. Such efforts need to continue and be fully integrated into the GoH’s modus operandi as they are key to foster investments as well as mitigate regulatory risks perceived by investors and donors.

1.17 Fraud/theft issue. Since 2009, a Draft Law preventing and sanctioning electricity theft has been pending submission to the Parliament. Such Draft Law is of key importance as it carries a strong political message that fraud and electricity theft will be sanctioned appropriately and that lost revenues have negative consequences for EDH finances and ultimately, MEF finances. As a result, stronger efforts need to be made to push this agenda forward and undertake the necessary legal steps to present this piece of legislation to the appropriate legislative body (i.e. Parliament).

1.18 Limitations on Financial and Operational Performance of EDH. The state-owned monopoly, EDH, is responsible for the provision of electricity. High level of technical losses are due in part to the aging equipment and poor operating conditions as well as to electricity theft and, historically, poor collection ratio (EDH does not collect enough revenues to cover the operational and generation cost). In the past 12 months, EDH has begun to improve its operational and financial performance, as captured under the conditionalities of the second PBG which called for the implementation of the TMC Phase III (see below) and a new management team at EDH. Latest figures indicate that EDH has added more than 30,000 clients (currently at 208,426 clients which is close to 209,934 clients planned originally) 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) has increased to 40%; collection ratio is now close to 70%, Cash Recovery Index (CRI) of 33% (vs. 25% a year prior) and

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12 Conditionalities in the first PBG included the publication and disclosure of key energy indicators. This conditionality was then reiterated, renegotiated and added to the second as well as the third PBG operations (not originally included).
13 EDH’s generation, transmission and distribution facilities were in major disrepair even before the January 2010 earthquake.
14 It is estimated that 50% of the people who are currently connected to the grid are connected illegally.
cumulative target savings of over US$52 million. In order to turn EDH into a financial and operational viable company, through bilateral and multilateral assistance, the following was achieved: (i) placing of 4 advisors within EDH (financed through the World Bank) in the four key areas of commercial, technical, planning and finance management; (ii) management contract (called the “Transition Management Contract” or TMC) was signed with assistance from the United States Agency for International Development (USAID)\(^\text{15}\), and in May 2011, such management contract was endorsed by the GoH and EDH.\(^\text{16}\) Phases I and II of the TMC\(^\text{17}\) were already carried out (with the support of first and second PBG) and consisted in the engagement of an independent contractor (IC), technically and financially qualified, to assume operational responsibility of EDH with the goal of strengthening the latter’s capacity in the immediate term.\(^\text{18}\) Phase III of the TMC (third and final phase) is currently underway and scheduled to expire in October 2013 when all operational targets (i.e. CRI, number of clients added and financial savings) set under the TMC are envisioned to be met\(^\text{19}\).

Notwithstanding the advances and progress made within EDH, there are still factors that severally impact its operational and financial performance, namely: (i) poor corporate practices, including independent audit and verification of EDH finances and accounts; (ii) lack of quality of service standards and performance criteria for electricity providers; (iii) lack of management standards; and (iv) inexistence of EDH meters that allow the latter to verify and account independently for the electricity delivered by Independent Power Producers (IPP). Causes of such limitations include: (i) inexistence of financial statements since 2005; (ii) lack of independent audit services; (iii) costly PPAs signed with IPPs, mostly within the context of an emergency crisis; (iv) financial performance still incipiently documented; (v) management standards not observed; and (vi) no EDH meters installed to verify actual energy delivered by IPPs.

1.19 **Justification.** In 2010, the IDB together with the World Bank and the United States Government (USG), which are the three main players in the energy sector

\(^\text{15}\) See IDBDOCS# 36813982 providing rationale for selection of Management Contract modality to intervene in the energy sector and reflecting the consensus reached with the IDB, World Bank and the United States Government to reform EDH.

\(^\text{16}\) 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.

\(^\text{17}\) 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 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.

\(^\text{18}\) 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).

\(^\text{19}\) EDH management has indicated that it will seek to individually retain the key external consultants that were engaged through the TMC, in order to ensure the continuation of its operational, commercial, financial and management reform after October 2013.
in Haiti, led the preparation of a White Paper I, outlining the roadmap for the policy and investment measures that were viewed as required to initiate the reform process of the energy sector in Haiti. Such measures were then subsequently incorporated in a Memorandum of Understanding (MoU I)\textsuperscript{20} signed by the GoH, the IDB and the USG. Together with the White Paper I and MoU I, the PBGs series was conceived to jumpstart the reform process.

1.20 The first PBG 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)\textsuperscript{21} with policy commitments agreed under the MoU I and including a massive intervention in EDH through a management contract to improve EDH performance (see paragraph 1.18 above).

1.21 The second PBG built 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.

1.22 The third PBG is designed to provide for the remaining policy measures\textsuperscript{22} considered key to position the energy sector towards long-term institutional sustainability. In order to fulfill the objective of the Program, this operation will seek to obtain, namely, the approval by the “Conseil des Ministres” (equivalent to Cabinet) of the New Ecosystem for Electricity document and the creation of the energy entity to plan and provide oversight of the energy sector, the guarantee mechanism to foster small hydro projects, the continuous publication and disclosure of key energy indicators and the submission to Parliament of a draft law penalizing electricity theft (which had stalled for the past 4 years). These policy measures, which fall under the Regulatory Framework component, were selected as the key conditionalities for the third PBG to support energy policy development and enhance oversight and planning of the sector as set forth in the specific objectives of the Program. In addition, the selection of such measures, during the preparation of the project, was made in light of the institutional complexity characterizing the sector and with the view to attain the overall impact of the Program as originally envisioned. With regard to EDH, its operational and financial performance improved dramatically through the management contract structure which was triggered under the 2\textsuperscript{nd} PBG (see paragraph 1.18 above). As a result, the policy conditionalities selected for the EDH component focus on financial transparency (2005-2010 financial statements completion and audit firm engaged), improvement in the quality of service standards and performance criteria for electricity providers and the adoption of new corporate management

\textsuperscript{20} Since 2010, the MoU I has been serving as the policy backbone instrument for driving the energy sector reform in the right direction while providing a united vision of the main donors in the sector.

\textsuperscript{21} Priority was given to MTPTEC and EDH in the reform of the energy sector given that both institutions are the key actors in the sector.

\textsuperscript{22} Such policy measures do not included three specific regulatory measures originally envisioned under the timing of the PBGs series and which are: (i) proposal for a new legal and regulatory framework, (ii) strategies and actions plans for the expansion of electricity coverage –including introduction of modern energy- in rural and peri-urban areas; and (iii) the possible private sector participation in EDH. Albeit such three measures were not fulfilled fully, the policy measures adopted for the PBGs series demonstrate that the impact expected has been attained.
standards. These policy measures are key measures for EDH to remain a viable financial and operational company and necessary to ensure that the objective of the Program can be met. To further ensure institutional continuity and consistency in the transformation of the sector post the PBGs era, the Bank is currently leading the preparation of a White Paper II and a Memorandum of Understanding II (MoU II)\textsuperscript{23} that will build upon the results that have been achieved in both the PBGs series and the MoU I.

1.23 Lastly, the programmatic approach instrument (vs. that of a traditional policy-based instrument which is less flexible in terms of conditionalities) was selected for this PBGs series to specifically take into account the modular nature of the reform process and thus correct and enhance the policy measures that would be incorporated in each subsequent program (including the last one) while still meeting the objective of the overall Program. It also allowed for deeper on-going policy dialogue with the GoH\textsuperscript{24} and the energy sector main players\textsuperscript{25} and thus craft and adopt conditionalities that are ambitious but yet realistic.

1.24 **Country’s Sector Strategy.** In the post-disaster needs assessment study (PDNA)\textsuperscript{26}, the GoH established that reconstruction of the sector should be part of an overall development plan for the electricity sector to make it efficient and financially viable, operating as an open, transparent market, promoting renewable energy and attracting enough capital to meet the rising demand and to provide affordable, high-quality electricity service.

1.25 **Alignment with IDB Country Strategy/Programming Objectives.** The Country Strategy (CS) for Haiti (2011-2015) was approved in December 2011 (GN-2646). Energy is one of the six sectors identified as a priority for IDB and the GoH. Two of the main strategic objectives within the energy sector are: (i) increase government oversight and planning of the energy sector, and (ii) improvement in operational efficiency of EDH. The outcomes of the operation are linked to the country program strategy through: (i) the approval of an energy entity to plan and provide oversight of the energy sector (including electricity), and (ii) EDH improving its financial and operational sustainability (publication 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

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\textsuperscript{23} The MoU II is scheduled to be signed later this year together with the GoH, the Bank, WB and USG and will continue the successful approach undertaken during the MoU I to support the transformation and modernization of the energy sector.

\textsuperscript{24} In addition to the policy measures taken during the PBGs series, the GoH has also taken unprecedented decisions to push for reform of the sector, namely: (i) declaration of a State of Emergency in the energy sector in August 2012 which allowed the appointment of a new Director at EDH and the creation and nomination of a Minister Delegated for Energy Security responsible for all energy matters; (ii) holding of regular meetings of the donor community through the Comité de Modernisation du Secteur de l’Energie (CMSE) and (iii) development of a common policy matrix across all sectors to avoid overlap and duplication of work.

\textsuperscript{25} 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.

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 and second PBGs, this third and final operation reflects the commitment demonstrated by the GoH in moving the reform agenda forward by accomplishing the goals stated before and continue focusing on the following: (i) pursuing the development of an institutional, legal and regulatory framework; (ii) fostering EDH sustainability; and (iii) supporting transparency and accountability in the sector. The policy letter from the GoH reflects the latter’s commitment 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 through various operations, detailed below. After the earthquake, emergency operations were approved to help Haiti overcome the immediate challenges and execution of these operations are moving forward in a satisfactory fashion. The main IDB operations 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 (over 71% disbursed) and US$20 million in 2011 respectively, 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 for an amount of US$18 million and over 62% disbursed) and its Supplementary Financing ((2349/GR-HA or HA-L1035 for US$14 million). The objective of both operations is to reduce electricity losses through physical rehabilitation of high-value distribution circuits, improving financial management and management of EDH, service quality and customer service and constructing the Tabarre Substation.

(iii) Institutional Transformation and Modernization Programs of the Energy Sector I and II (HA-L1065 for US$35 million in 2011 and HA-L1073 for US$12 million in 2012 and both disbursed 100%).

(iv) Additional technical assistance programs such as: (i) Solar Energy Program (HA-X1018 and HA-X1019 for US$1.5 million) 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 its final disbursement stage. (ii) Artibonite 4C (HA-T1150) for US$1.5 million to support the development of another potential hydroelectric plant and provide additional support to PHP and the
associated transmission line; and (iii) sustainable energy technical assistance
(using SECCI, HRF and Korean resources HA-T1178, HA-T1183 and HA-
T1176, respectively) to develop alternative sources of energy in Haiti and
small scale pilot projects, including off-grid.

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 third one of a series of three PBGs and will provide
fungible non-reimbursable resources in a single tranche for US$25 million
(US$22 million from IDB Grant Facility and US$3 million from HRF) to support
specific reforms. The Program will have the following components:

1.30 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).

1.31 Component 2. Energy Sector Reform. This component will continue to support
the GoH’s institutional capacity to define an energy policy and perform the
planning and oversight of the energy sector. It will have the following sub-
components.

(i) Legal and Regulatory Framework: (a) A “New Ecosystem for
Electricity” is approved by the “Conseil des Ministres” as policy
regulating the electricity sector; and (b) the creation of an energy entity to
plan and provide oversight of the energy sector (including electricity) is
approved by the “Conseil des Ministres”.

(ii) Guarantee mechanism created to backstop PPA payments for small
hydro projects. This mechanism is intended to foster the creation,
development and implementation of small renewable energy projects such
as micro-hydros or mini-hidros.

(iii) Tableau de Suivi (Control Panel) of the power sector is prepared and
published each quarter up to the 3rd quarter of 2012. This
conditionality consists in the detailed disclosure and publication of energy
sector indicators (on the MEF webpage) in order to increase transparency
of financial transfers within the energy sector. These indicators will
include, 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.
(iv) **Bill of Law Penalizing Electricity Theft is submitted to Parliament.**

The Bill of Law penalizing electricity theft and fraud (*Loi Pénalisant le Vol de l’Électricité*) is submitted to Parliament.

1.32 For this component, the following conditions are being met: (i) New Electricity Ecosystem document is approved by the “Conseil des Ministres”; (ii) creation of an energy entity to plan and provide oversight of the energy sector (including electricity) is approved by the “Conseil des Ministres”; (iii) creation of guarantee mechanism for small renewable energy projects; (iv) detailed disclosure and publication of key energy sector indicators on the MEF website up to the 3rd quarter of 2012; and (v) Bill of Law penalizing electricity theft is submitted to Parliament.

1.33 **Component 3. Modernization of EDH.** Following up on the actions taken during the first and second 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. This component will focus on:

(i) **Engagement of an audit firm** for independent verification of EDH annual financial reports to be presented to the Board of Directors.

(ii) **Quality of services standards and performance criteria for electricity providers established.** Such standards and performance criteria will include, amongst others: (a) new model for PPA contract; (b) EDH securing three technical-economic analysis to negotiate PPAs; and (c) installation of 6 smart meters at private provider locations to verify actual consumption and invoice.

(iii) **Adoption and maintenance of new corporate management standards.** This will include: (a) completion of 2005-2010 financial statements for EDH; and (b) monitoring of agreed operational indicators included in the 2012-2013 budget approved by the EDH Board.

1.34 For this component, the following conditions are being met: (i) engagement of an audit firm for EDH; (ii) quality of standards and performance criteria for electricity providers completed; and (iii) new corporate management standards adopted. In addition, IDB has been supporting EDH’s phase III (third and final phase) of the TMC under the Operation Improvement Agreement (OIA) where EDH has begun to achieve commercial loss reduction; increase revenues and improve electricity services for households and businesses (see parag 1.18) as well as resume board meetings on a monthly basis.

C. **Key Results Indicators**

1.35 **Expected Results.** The policy measures selected under this operation are considered necessary to attain the expected results of: (i) improved institutional capacity and organization of the sector; and (ii) better management and operational efficiency of EDH. With the fulfillment of such conditionalities, the overall objective of the Program will thus be met. 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 shared and 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 to attain such results.

D. Economic Rationale

1.36 A cost-benefit analysis (CBA)\(^{27}\) 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. The CBA has been prepared following a sectorial approach. The economic benefits are the results generated by the trigger mechanism of the Program over the required actions to achieve the sectorial objectives: improve access to electricity and the energy sector competitiveness. The evaluation methodology estimates net benefits by comparing the situations with and without the Program. Although the PBG is not going to fund its own direct investments, the Program itself will act as a trigger mechanism and will trigger the necessary actions to achieve the objectives pursued through a sector-wide policy program. Therefore the approach used to conduct the CBA was the following: (i) the analysis assumes that the energy sector reform and the modernization of EDH conditionalities will impact the investment plans in the energy sector; and (ii) the actions proposed by the PBG are therefore necessary in order to generate these economic effects. However, they are not sufficient on their own so they must be accompanied by sectorial investments associated with the benefits made possible by the Program.

1.37 The main direct benefits of the Program are: (i) increasing the reliability of generation resources (including transmission and distribution lines); and (ii) modernization of EDH (reducing the average energy cost of PPAs). The valuation of the flow of costs and benefits yields the Net Present Value (based on a 12 % discount rate) and the Internal Rate of Return, which are used to judge the desirability of the Program. These conditions yield to positive economic indicators, which justified the project where economic indicators were calculated and results show positive Net Present Value (NPV) of US$29,070,251, cost-benefit ratio larger than 1 (1.068) and Economic Rate of Return (ERR) larger than 12% (16.83%). Additionally, a sensitivity analysis was conducted and projections of economic flows taking into account changes in some of the hypotheses or assumptions of the analysis were performed. The variables used when performing the sensitivity analysis were as follows: (i) discount rate; (ii) rate of reduction of the level of technical losses; (iii) percentage of installed capacity with PPAs to be tendered; and (iv) the percentage of increase in planned investment.

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II. FINANCING STRUCTURE AND MAIN RISKS

A. Financial Instruments and Contractual Conditions

2.1 This program is the third of a series of three PBG under a programmatic approach. This third and final operation will draw upon the resources of the IDB Grant Facility in the amount of US$22 million and from the HRF in the amount of US$3 million, with disbursement scheduled no later than third quarter of 2013, 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) deficient planning and execution capacities of the sector; (ii) lack of political commitment for the implementation of policy commitments; (iii) improvements in sector performance not sustained; (iv) public funds injected into the sector not tracked and the energy sector continues to drain resources from the MEF; and (v) political and institutional risks that policy advancements made at both the regulatory framework and EDH levels will not be sustained in the long-term and thus potentially reverse the direction and pace of the energy sector reform.

2.4 The general risk qualification is medium-high. Mitigation measures detailed in the Risk Matrix include: (i) coordination with the donor community; (ii) IDB holding regular meetings with MEF, EDH and MTPTEC; and (iii) monitoring measures proposed in the Monitoring and Evaluation Plan (electronic link 7) that will be assessed after the conditionalities in the PBG series have been assessed. 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.

28 Such risks could be internal (i.e. GoH/EDH) and/or external (i.e. donor community related).
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.

3.2 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.

3.3 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 are responsible for the compilation, analysis and delivery of verification reports (M&E Plan). 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$60,000). Such monitoring arrangements, energy surveys and ex-post CBA that will be used to evaluate the effectiveness of the Program, will be carried out following the completion and disbursement of the third PBG. They will then be incorporated into the Project Completion Report (PCR), which will be prepared to evaluate the impact and results obtained of the PBG series in accordance with IDB policies.

IV. POLICY LETTER

4.1 The IDB has agreed with the 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.
### Development Effectiveness Matrix

#### I. Strategic Alignment

<table>
<thead>
<tr>
<th>1. IDB Strategic Development Objectives</th>
<th>Aligned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lending Program</td>
<td>Lending to small and vulnerable countries.</td>
</tr>
<tr>
<td>Regional Development Goals</td>
<td>Percent of households with electricity.</td>
</tr>
<tr>
<td>Bank Output Contribution (as defined in Results Framework of IDB-9)</td>
<td>Km of electricity transmission and distribution lines installed or upgraded.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2. Country Strategy Development Objectives</th>
<th>Aligned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country Strategy Results Matrix</td>
<td>GN-2646</td>
</tr>
<tr>
<td>Country Program Results Matrix</td>
<td>GN-2696</td>
</tr>
<tr>
<td>Relevance of this project to country development challenges (If not aligned to country strategy or country program)</td>
<td></td>
</tr>
</tbody>
</table>

#### II. Development Outcomes - Evaluability

<table>
<thead>
<tr>
<th>Evidence-based Assessment &amp; Solution</th>
<th>9.6</th>
<th>33.33%</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ex ante Economic Analysis</td>
<td>10.0</td>
<td>33.33%</td>
<td>10</td>
</tr>
<tr>
<td>Monitoring and Evaluation</td>
<td>7.5</td>
<td>33.33%</td>
<td>10</td>
</tr>
</tbody>
</table>

#### III. Risks & Mitigation Monitoring Matrix

<table>
<thead>
<tr>
<th>Overall risks rate = magnitude of risks*likelihood</th>
<th>Medium-High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identified risks have been rated for magnitude and likelihood</td>
<td>Yes</td>
</tr>
<tr>
<td>Mitigation measures have been identified for major risks</td>
<td>Yes</td>
</tr>
<tr>
<td>Mitigation measures have indicators for tracking their implementation</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Environmental & social risk classification | 8.13 |

#### IV. IDB’s Role - Additionality

<table>
<thead>
<tr>
<th>The project relies on the use of country systems (VPC/PDP criteria)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The project uses another country system different from the ones above for implementing the program</td>
</tr>
<tr>
<td>The IDB’s involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:</td>
</tr>
<tr>
<td>Gender Equality</td>
</tr>
<tr>
<td>Labor</td>
</tr>
<tr>
<td>Environment</td>
</tr>
<tr>
<td>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</td>
</tr>
<tr>
<td>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</td>
</tr>
</tbody>
</table>

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, outcomes and outputs are clearly presented, and their indicators have baselines, targets and sources of information. All indicators are SMART.

The project was analyzed using a cost-benefit analysis. The economic benefits were adequately quantified and the costs reflect real resource costs to the economy. The assumptions used were presented and a sensitivity analysis was performed.

The project has a monitoring and evaluation plan which follows the DEM guidelines. The operation will be evaluated using a reflexive methodology and an ex-post cost-benefit analysis.
## POLICY MATRIX

<table>
<thead>
<tr>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Objective of the program:</strong> 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.</td>
<td>Sound macroeconomic framework maintained in accordance with the objectives of this Program.</td>
<td>Sound macroeconomic framework maintained in accordance with the objectives of this Program.</td>
<td>Sound macroeconomic framework maintained in accordance with the objectives of this Program.</td>
</tr>
<tr>
<td><strong>Macroeconomic Framework:</strong> Maintain macroeconomic sustainability.</td>
<td>Sound macroeconomic framework maintained in accordance with the objectives of this Program.</td>
<td>Sound macroeconomic framework maintained in accordance with the objectives of this Program.</td>
<td>Sound macroeconomic framework maintained in accordance with the objectives of this Program.</td>
</tr>
<tr>
<td><strong>Energy Sector Reform:</strong> Support the GoH’s institutional capacity to define an energy policy and perform the planning and oversight of the energy sector.</td>
<td>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.</td>
<td>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.</td>
<td>The New Ecosystem for Electricity document is approved by the “Conseil des Ministres” as policy regulating the electricity sector. Creation of an energy entity to plan and provide oversight of the energy sector (including electricity) is approved by the “Conseil des Ministres”. Guarantee mechanism created to backstop PPA payments for small hydro projects.</td>
</tr>
<tr>
<td><strong>Public sector transparency:</strong> 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.</td>
<td>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 the 3rd quarter of 2011 through the Tableau de Suivi (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.</td>
<td>Tableau de Suivi (control panel) of the power sector is prepared and published up to the 3rd quarter of 2012 and 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.</td>
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<td></td>
<td>Bill of Law penalizing electricity theft (Loi Penalifant le Vol de l’Électricité) is submitted to Parliament.</td>
</tr>
</tbody>
</table>
| Modernization of EDH: Turn the national utility, EDH, into a viable financial and operational company. | 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:  
(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.  
(ii) The GoH has officially requested the Commission de Modernisation des Entreprises Publiques (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. | 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 are:  
(i) cash recovery index (CRI) increase to 48%;  
(ii) 60,000 active customers added to EDH customer base;  
(iii) increase of EDH savings to financially sustainable levels, and  
(iv) holding of regular EDH board meetings.  
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. | EDH General Direction hires an audit firm for independent verification of EDH’s annual financial reports to be presented to the Board of Directors.  
Quality of services standards and performance criteria for electricity providers established and include:  
(i) A new model for PPA contracts;  
(ii) Three technical-economic analysis to negotiate PPAs, and  
(iii) Six (6) smart meters installed at private provider locations to verify actual consumption and corresponding invoice. | 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. | Implementation of the Commercial Management System (SGC) which will contribute to improved billing management, collection control and customer/training related activities. | Adoption and maintenance of new corporate management standards by EDH such as:  
(i) Completion of 2005-2010 financial statements for EDH, and;  
(ii) Monitoring of agreed operational indicators as reflected in 2012-13 budget approved by the EDH Board. |