Request for a Change of CTF Financing Product

World Bank : Haiti CTF Modern Energy Services for All Project

July 19, 2017

Summary

The World Bank is requesting the CTF Trust Fund Committee (TFC) to consider replacing the approved CTF Loan instrument for the Haiti Modern Energy Services for All Project (US$ 14.5 million) with a CTF Contingent Recovery Grant and associated administrative fee equivalent to the same amount. In order to process the Project to the Board for approval, the World Bank is requesting an exception to the CTF's Pipeline Management & Cancellation Policy and is proposing a revised Board Approval date of October 31, 2017 to replace the current approval date of July 31, 2017.

Rationale for the Requested Changes

The rationale for this change is based on the recent increase in the Government of Haiti's risk of debt distress, as determined by the post-disaster World Bank/IMF Joint Debt Sustainability Analysis (DSA) for Haiti,[1] which was carried out in November 2016 in the aftermath of the deadly Category 4 Hurricane Mathew, from which the country is still recovering. Changing the instrument to the Contingent Recovery Grant will help mitigate any contingent liability on the Government through its support for providing equity and lending to the private off-grid energy companies under the Off-Grid Energy Fund (OGEF), which the Project would establish.

The proposed change would allow CTF to recover an amount up to a maximum of the full amount provided by the Contingent Recovery Grant, based on the performance of OGEF, which is expected to generate moderate financial returns. The Project will retain its original Project Development Objective and this change request also provides updates to the original design, co-financing and attribution of results.

The World Bank will secure a Board date once the CTF approval of the requested Change of the CTF Financing Product is approved. In light of upcoming summer breaks which has the potential of extending CTF approval periods and the lead time following CTF approval for submission to the World Bank Board, the Bank team would like to request an extension until October 31, 2017 for Board approval of the Project.

Current Project Structure

Haiti Modern Energy Services for All Project was approved by the CTF committee on October 5, 2015. The Project Development Objective is to accelerate private-sector-driven, renewable

[1] World Bank, International Monetary Fund: Haiti Joint Bank-Fund Debt Sustainability Analysis, November 16, 2016

energy-based off-grid electrification in rural and peri-urban areas of Haiti. This objective will be achieved primarily through (i) supporting the strengthening of an enabling regulatory framework and (ii) by establishing the Off-Grid Energy Fund (OGEF), which will provide equity and debt financing to commercially viable off-grid investments with the potential for replication and scale-up.

The Project was originally expected to be financed by a CTF grant in the amount of US$ 1.5 million and a CTF loan in the amount of US$ 14.5 million. The CTF grant portion was supposed to be used by the Energy Cell of the Ministry of Public Works, Transport and Communications (MTPTC), the body in charge of energy sector policy making, for the development of the enabling regulatory framework for mini-grid and off-grid electrification. The CTF loan funds were expected to finance OGEF. The Borrower was to be the Government of Haiti (GOH).

OGEF is to be established as a Government-owned fund, which would be managed by a professional Fund Manager, expected to be a consortium of a local financial intermediary with expertise in investing in Haiti start-ups, and an international fund manager with expertise in investing in off-grid electrification globally, in particularly in more advanced markets, such as East Africa. The Fund Manager would be financially incentivized to manage OGEF prudently for GOH − in order to generate returns on investments, as well as to drive impact on the ground. GOH would, however, ultimately carry the investment, debt default and exchange rate risks. GOH was willing to absorb these risks due to the nascent nature of the off-grid sector in Haiti (which was not yet ready for a purely private sector approach), and the potential for high development impact of OGEF investments in rural areas, which the Government of Haiti has prioritized in its development strategy.

OGEF is expected to provide seed funds to "jump-start" market development and attract additional private sector financing. One of the Project's key result indicators is to mobilize US$ 48 million in private sector investments in off-grid electrification in Haiti. The Project's objectives and key design elements have not changed.

Since the CTF approval October 5, 2015, however, Haiti has experienced several significant political, economic and natural disaster shocks, which have severely altered its economic and fiscal situation and prevented the World Bank from approving the Project in its current form. The Bank has requested and the CTF has granted two extensions of the deadline for the Bank Board approval to June 30, 2017 and to July 31, 2017.

The Project approval was delayed due to two unanticipated exogenous events:

- Delays in elections due to the allegation of fraud during the first round of the Presidential elections in Haiti, which have affected the Bank ability to approve any new projects for Haiti. This legal constraint came into effect just after the Project's negotiations in April 2016. This situation has now been remedied. Presidential elections were ultimately held on November 20, 2016. Haitians elected Mr. Jovenel Moise, in one round, with over 55 percent of the vote. The Electoral Council confirmed these results on January 3, 2017. President Moise was inaugurated on February 7, 2017.

- The devastating impact of the Category 4 Hurricane Matthew, which hit Haiti on October 4, 2016, affecting over 2 million people (20 percent of Haiti's population), and causing damages of US$1.9 billion, the equivalent of 22 percent of GDP. This major natural disaster further exacerbated Haiti's fragile economic and fiscal situation, already impacted by the prolonged political uncertainty due to the election delays and other natural shocks, such as a severe droughts in previous years. Annex 1 provides more details on the Hurricane Matthew impacts.

As a result, Haiti's debt sustainability situation has been altered. At the time of the CTF approval, Haiti's debt sustainability was satisfactory, per the assessment of the joint assessment of the World Bank and the International Monetary Fund (IMF), and there were no restrictions on Haiti's concessional borrowing (See Annex 7 – Debt Sustainability Analysis in the original PAD submitted to CTF). In fact, Haiti became the so-called "yellow light country", which meant that the remaining IDA 17 was to be provided to Haiti as a mix of grants and credits (all previous funding since the earthquake of 2010 were grants). However, the post-disaster Joint Debt Sustainability Analysis (DSA) for Haiti, completed in November 2016, found the country at a high risk of debt distress. As a result, the Bank Board has provided a policy waiver, which allowed the Bank to transform the planned IDA credits to IDA grants for the remainder of IDA 17 envelope. Subsequently, following the same reasoning, it was decided that IDA 18 would also be provided as grants only to Haiti. Recurring to the IDA grant financing in the aftermath of the Hurricane Mathew is expected to get Haiti back on track in terms of its debt sustainability, so that in the medium term, Haiti's debt sustainability would not be affected.

This situation, however, is creating a difficulty for the timing of the CTF loan. While the CTF loan is provided on concessional terms, it nonetheless is less concessional than the grant financing that is otherwise provided to GOH by the World Bank and other donors, and is inconsistent with the World Bank decision to mitigate the elevated risk of debt distress through the provision of IDA grants. GOH has therefore requested that the CTF loan be converted into a Contingent Recovery Grant.

Request for a Change of the CTF Financing Product

Per the Government request, the World Bank is requesting CTF to change the financing instrument from a loan to a Contingent Recovery Grant of US$ 14.22 million and US$ 0.28 million of administrative fees. It is proposed that the Grant would include a recovery clause, which will allow the World Bank, as a CTF trustee, to reclaim the proceeds from OGEF equity and debt financing at the time of the OGEF closure (Year 11). The change would not have an impact on the US$1.5 million CTF Grant for building the regulatory environment, which was also approved on October 5, 2015.

This Contingent Recovery Grant would be awarded to the Government of Haiti for OGEF operations and investments. OGEF would be established at the Industrial Development Fund (FDI), a Government-owned Haitian financial intermediary, which was selected by the Government, in agreement with the World Bank, as the most suitable local financial intermediary to enter into a Partnership Agreement with an experienced, competitively selected international fund manager to jointly manage OGEF.

The Ministry of Economy and Finance would sign a Subsidiary Agreement with FDI to authorize it to enter into the Partnership Agreement with the International Fund Manager and to manage OGEF on the Government's behalf. OGEF will be managed autonomously from the Government by the consortium of fund managers (FDI and the competitively selected international fund manager), who will be financially incentivized to create positive financial returns on the fund while creating positive social and environmental impacts in line with Government and CTF interests. This financial autonomy will be reinforced through disbursement arrangements, e.g. the Bank could disburse directly to the designated account established by FDI.

OGEF will be established for 11 years, which will include 10 years of active operation and one year for closing. The Grant Agreement and the Subsidiary Agreement will require FDI to establish a segregated account for all proceeds from CTF-funded OGEF investments (liquidated equity holdings and repaid loans). These proceeds could be reinvested during the OGEF life (10 years), but all would need to be liquidated by Year 11. At Year 11, all funds in the CTF segregated account, up to a maximum of the disbursed amount of CTF financing for OGEF, and after the payment of OGEF Fund Managers fees and any other closing expenses, would be returned to the World Bank, acting as a trustee for CTF.

Impact of the proposed Change of the Financing Product

The main impacts of the proposed Change in the Financing Product would be (i) to mitigate the Government risk of OGEF failure to provide a positive financial return, including the risk of equity investments losing value, the risk of debt default and the exchange rate risk, and (ii) to allow the Government to access concessional financing with terms consistent with those provided by its major development partners (which currently are all grants) in conditions of Haiti's temporarily elevated risk of debt distress due to the impact of Hurricane Mathew.

There would not be any impact on OGEF's structure, incentives or operations. In both cases, the OGEF would be a Government-owned fund but delegated for management to a consortium of competent local and international financial intermediaries (FIs), which would be financially incentivized to create positive financial returns on the fund. In both cases, OGEF will be supervised by an Advisory Committee, which would include two governmental and three non-governmental members to avoid a potential capture by political or other special interests. In both cases, the Fund Manager will be tasked to develop the off-grid market in Haiti, using OGEF as seed funds, with the expectation to attract additional private sector financing, estimated at US$48 million. Given the Haiti market potential, this is a conservative estimate.

The Ministry of Economy and Finance and the Ministry in charge of energy (MTPTC) will be members of the Advisory Committee, but will have no direct influence on OGEF operations. All investment decisions will be taken by the Fund Manager. Therefore, even if the Government incentives may be altered by changing a loan to a grant, this should not be impacting OGEF management and its performance. Furthermore, the Government's main motivation for establishing OGEF is to drive development impact in rural areas, and the Government therefore is likely to remain equally motivated in OGEF's success, whether the funding is provided as a Loan or as a Contingent Recovery Grant.

Other changes in the Project Appraisal Document (PAD) since the approval by CTF

The following updates and minor changes to the Project Appraisal Document were made since the original CTF approval. It should be noted that there were no changes in the Project Development Objectives, and no substantive changes in the Project Component description.

Selection of the Industrial Development Fund (FDI) as the local financial intermediary to co-manage OGEF. The CTF-approved PAD foresaw that OGEF will be managed through a consortium of a local financial intermediary, with experience in investing in Haiti, and an international fund manager, with an experience in investing in off-grid energy businesses globally. None of the two FIs, however, were identified at the time of the CTF approval. Since the CTF approval, the Government, in agreement with the World Bank, has selected the local FI – the Industrial Development Fund (FDI). The FDI is a specialized institution of the Central Bank of Haiti, created in 1981 with funding from the World Bank and the EU. Although FDI is Government-owned, it has financial and operational autonomy. FDI was selected based on the following considerations: (i) consistency with Government policy to channel Government funds for private sector development through FDI; (ii) FDI's experience with both equity and debt financing for SMEs, including venture capital for start-ups, (iii) FDI's experience with World Bank and other donor-funded programs, including a positive experience with an ongoing IDB-financed program in the agriculture sector with similar features as OGEF, and (iv) its overall satisfactory performance. The International Fund Manager (IFM) will be competitively procured once the Project is approved. To ensure sustainability and potential replication of similar efforts, OGEF will be housed in FDI (as opposed to creating a new legal entity), but it will be administratively and financially segregated from other FDI funding. *These changes are reflected in the updated Implementation Arrangements (PAD main text Section IV.A, Annex 3, and CTF Annex Paragraphs 18-22)*

SREP approval of a parallel Renewable Energy for All Project, which would provide grants for off-grid energy, complementary to CTF-funded equity and loans. The availability of SREP and IDA funding was anticipated in the original PAD approved by CTF, but the exact nature of SREP activities was not known then. The updated PAD articulates linkages between the CTF and the SREP Projects, resulting in two minor updates.

- Co-financing of OGEF with SREP grants. The SREP-funded Renewable Energy for All Project provides additional funding of US$ 3 million to OGEF to provide grants to off-grid energy companies in addition to CTF-funded equity and debt. These grants, aimed at supporting the launching and early stage growth of off-grid energy companies, prior to or tied to OGEF equity investments. These grants were originally anticipated to be financed by CTF, but thanks to the availability of SREP grant funding, CTF funding can focus only on commercially viable investments, expected to generate financial returns. *PAD main text: Section I. Strategic Context, Box 1 on Page 5; Section III, A. Project Description, Component 2 – paragraphs 29-30; and B. Project Financing – paragraph 36; CTF Annex: Section D. Linkages with SREP Investment Plan, paragraphs 27-30, including tables A7.1 and A7.2*

- Alignment of results indicators in order to (i) reflect SREP parallel financing and avoid double-counting between CTF and SREP, and (ii) reflect the latest off-grid energy technology trends and Haiti market development (e.g. a higher proportion of larger kits for households and larger solar PV systems for productive uses, and faster expansion of mini-grids than originally anticipated). The key changes are reflected in the table below.

	CTF PAD original	**CTF PAD revised**
Number of households provided with off-grid energy access (number households)	Over 100,000	117,000
Number of people provided with off-grid energy access (number people)	Over 500,000[2]	585,000
Renewable generation capacity (MWp)	10-20	15
Renewable generation (GWh)	22	22
GHG reduced or avoided annually (tCO2eq/a)	62,000	59,000
emissions reduced or avoided over lifetime of investments (tCO2eq/lifetime)	1,138,933	1,067,315[3]
Cost effectiveness (US$/t tCO2eq)	$\$_{CTF}/tCO_{2eq} = 14$ $\$_{Project}/tCO_{2eq} = 56$	$\$_{CTF}/tCO_{2eq} = 15$ $\$_{Project}/tCO_{2eq} = 60$

No target, however, is reduced by more than 15 percent of the original value as a result of the change in attribution to SREP financing. Private sector mobilization indicator (US$ 48 million) has not been altered. *See Annex 1 and CTF Annex 7 Results Framework (page 72) and Section F: Assessment of the Project with CTF criteria, especially Table A7.4 (page 83).*

3. Context update and editorial changes. The country and the sector context was updated to reflect political, economic and sector developments since the CTF approval. This includes the elections and the inauguration of the new President, the new Government Roadmap for the Energy Sector, the impact of the Hurricane Mathew, the latest energy sector data, including an updated OGEF investment pipeline. In addition, the main text of PAD was reduced to 16 pages, in deference to recommended World Bank guidelines, and, the non-essential Annex 5 (description of WBG renewable energy program, including CTF and SREP linkages) was removed, with key information integrated in the PAD text instead. Annex 6 – Economic and Financial Analysis – was

[2] The original PAD's Annex 1 set the minimum target of 500,000 people reached, but the CO2 calculation in the CTF Annex 7 was based on the "probable" number of 900,000 people reached. The "probable" number, however, also includes households to be supported by SREP. Therefore, in order to avoid double-counting, the households are counted proportionally between CTF and SREP, with 485,000 households attributed to CTF and 315,000 households attributed to SREP.

[3] The change in expected CO2 emission reductions is mainly due to the changed expected composition of OGEF investments, reflecting also co-financing from SREP, results of which are reported separately to SREP. The key changes are: (i) the number of households reached by CTF that was used originally for CO2 calculation was reduced, given that some OGEF supported households are now also reported under the SREP project (see footnote 2 above); and (iii) the share of larger systems used for productive uses was increased. Thanks to SREP initial piloting and TA support to this off-grid market segment, it is expected that CTF will be able to integrate a larger share of commercially viable investments for productive uses. The first factor resulted in the reduction of expected CO2 emissions, while the second factor results in their increase.

shortened, while preserving the key findings demonstrating project's economic and financial viability. Annex 7 – Debt Sustainability Analysis was removed as it is no longer applicable.

Request

The team is requesting CTF to approve the above described Change in the CTF Financing Product, consisting of replacing the CTF Loan instrument with the CTF Contingent Recovery Grant, under the implementation arrangements described above.

Annex 1 - Hurricane Matthew impact on Haiti economy

1. Hurricane Matthew, a category 4 hurricane struck Haiti on October 4, 2016. The disaster affected over 2 million people, about 20 percent of Haiti's population. Government reported 546 deaths, 128 missing, 439 injured, and 175,500 people living in temporary shelters.[4] The hurricane's high wind speeds, heavy rainfall, and devastating storm surge resulted in flooding, landslides and extensive destruction of infrastructure and livelihoods, especially in the southern departments of Grand'Anse, Nippes, and Sud, where 80 percent, 66 percent, and 65 percent of people respectively are poor (under the national poverty line of US$2.41 per day) and 36 percent, 30 percent and 26 percent are extremely poor (under the national extreme poverty line of US$1.23 per day).[5] Lesser damage was seen in coastal areas in other parts of the country. Presidential elections were ultimately held on November 20, 2016 (postponed again due to the inability to reach Hurricane Matthew affected areas earlier). Haitians elected Mr. Jovenel Moise, in one round, with over 55 percent of the vote. The Electoral Council confirmed these results on January 3, 2017. President Moise was sworn in on February 7, 2017.

2. Total damages and losses were estimated at US$1.9 billion, the equivalent of 22 percent of GDP, and preliminarily reconstruction needs at around US$2.2 billion, equivalent to 25 percent of GDP. The agriculture and housing/urban sectors were the hardest hit. Up to 90 percent of crops and livestock were lost in some areas. Thousands of structures were damaged and 75 percent of structures in the heaviest hit communities in Grand'Anse[6] were entirely destroyed. Key roads and bridges were washed away. The area's already limited water, sanitation and energy infrastructure was damaged. Although damages and losses appear more modest in the education and health sectors, the population has been significantly affected by the damage and destruction of schools (3,000 and 500 schools respectively) and the interruption of services at damaged or destroyed health centers. Over 450,000 children are estimated to remain out of school, the vaccine cold chain has been destroyed, and a sharp increase in suspected cholera cases has been recorded in affected departments. Table 1 records damages and losses by sector.

3. Matthew is expected to compound Haiti's substantial economic challenges and dampen future economic growth. Over 58 percent of Haiti's population lives on less than US$1.98 per day, the national poverty line. Income per capita stands at US$820 per annum (in 2015). Haiti has low growth, low revenue generation, and declining external financing.[7] Prior to Matthew, projected GDP growth stood at 1.5 percent for Haitian Fiscal Year (HFY) 2017.[8] In the absence of a strong reconstruction response, GDP is expected to contract by 0.1 percent, while reconstruction will likely widen Haiti's external account deficit due to higher food and construction material imports, and lead to a deterioration in the country's fiscal position. In addition, the disaster compounds the ongoing decline in available public resources for service delivery, weakening access to education,

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4 Directorate of Civil Protection, Partial assessment of deaths after Matthew, October 13, 2016.

5 Household Survey 2012 - *Enquête des Conditions de vie des Ménages après le Séisme*; ONPES; Published 2014. Values in Purchasing Power Parity (PPP) 2005.

6 Communities of Maniche, Camp Perrin, Chantal, Beaumont, Duchity, Moreau and Chambellan.

7 Singh, Raju Jan; Barton-Dock, Mary A. Haiti - Toward a New Narrative: Systematic Country Diagnostic (Washington, D.C., 2015).

8 HFY 2017 runs from October 1 2016 to September 30, 2017.

health outcomes, and the decline in Haiti's extreme poverty rate, which fell from 31 percent to 24 percent over the 2000-2012 period. Overall hurricane-related financing needs are estimated at US$2.3 billion (US$0.1 billion for humanitarian response and US$2.2 billion for reconstruction).

Table 1: Summary of the Damages and Losses by Sector[9]

Sectors	Total Damages and Losses [M GDS]			%	Total Damages and Losses [M $US]		
	Public	Private	Total		Public	Private	Total
Social Sectors	**11,325**	**39,450**	**50,774**	**40%**	**171.3**	**596.8**	**768.1**
Housing and Urbanization	5,845	33,580	39,424	31%	88.4	508.0	596.4
Health	4,350	641	4,991	4%	65.8	9.7	75.5
Education	1,130	5,229	6,359	5%	17.1	79.1	96.2
Infrastructure	**12,053**	**9,955**	**22,008**	**17%**	**182.3**	**150.6**	**332.9**
Transport and Telecommunications	9,050	9,539	18,588	15%	136.9	144.3	281.2
Water and Sanitation	1,384	324	1,707	1%	20.9	4.9	25.8
Energy	1,620	93	1,712	1%	24.5	1.4	25.9
Productive sectors	**1,086**	**52,795**	**53,881**	**42%**	**16.4**	**798.7**	**815.1**
Agriculture, livestock, and fisheries	951	38,964	39,915	31%	14.4	589.4	603.8
Trade and Industry	-	13,439	13,439	11%	0.0	203.3	203.3
Tourism	135	392	527	0.4%	2.0	5.9	8.0
Environment	**740**	**-**	**740**	**1%**	**11.2**	**0.0**	**11.2**
Protected Areas and National Parks	740	-	740	1%	11.2	0.0	11.2
TOTAL	**25,204**	**102,200**	**127,404**		**381.3**	**1546.1**	**1927.3**

9 Government of Haiti, Hurricane Matthew - Damage and Loss Assessment, October 26, 2016.