Haiti Modern Energy Services for All Project
World Bank Response to Questions from Germany
September 30, 2015

Question: The proposal requests a softer term public loan (14.5 m$) but the proposed facility intents inter alia to offer equity and grants. While public loans usually are sourced by all contributors, equity would be a higher risk profile financial product and therefore to be excluded from the general risk sharing. Clarification from WB and the Trustee how this is taken care of would be appreciated and is important for our approval.

Response: From CTF perspective, this is a public loan guaranteed by the government. However, the government would be using the proceeds of the loan to capitalize the facility, which would provide different financial instruments to support private companies. Consequently, irrespective of the type of instruments used, this would not increase the CTF's exposure and the risk remains with the Government of Haiti.

Question: The facility would extend grants, equity, working capital and medium-term debt. Will the fund manager be free to decide how to allocate the funds or will there be an ex-ante distribution between grants, equity and debt?

Response: The facility has been designed to maximize flexibility to achieve the fund's objectives based on market needs and opportunities. For this reason, there is no ex-ante allocation between equity, working capital and medium term debt; but rather it is at the discretion of the Fund Manager based on market needs and opportunities. It is anticipated that the Fund Manager will allocate resources to investments across different stages in companies' growth, including some that may be early stage companies requiring equity, while others are likely to be at a stage of growth or market segment, where working capital or debt may be more appropriate.

Question: What are the return expectations of the fund to be established under component 2?

Response: The Fund has not established a formal return expectation; however, it has been designed to follow commercial principles under oversight of the Advisory Committee to achieve an impact objective, which is to reach at least 500,000 beneficiaries and several enterprises in the first five years of operation. As stated above, CTF risk does not change regardless of the fund's financial returns since the loan is a public loan guaranteed by the government of Haiti.

The Fund would aim to have positive returns and meet its access objectives. More generally over time, the team has observed that returns on equity investments in DESCOs in Africa can range from 15-30% IRR depending on the stage of investment; while debt or "utility-like" equity investments in mini-grids could yield 12-15%, and are subject to currency risk. Combined with losses, this could imply an indicative target return of 10-20% for such funds.

Question: The regulatory framework for mini-grids seems to be unclear. How would the project ensure close coordination with the government-owned energy monopolist EDH?

Response: This is an important question. The World Bank and the IDB are currently working with the government on regulatory reform that is expected to provide greater clarity to the regulatory framework for mini-grids. In its project preparation, the World Bank team assessed that there is limited space within the current regulatory framework for the project to operate (cooperative model). Along with IDB and others, the Bank would continue to support and monitor regulatory reform. If there is currently such a legal way – and ongoing projects - for mini-grid operators to partner with municipalities through cooperatives, the scale up of electricity access through mini-grids will necessarily need a more flexible regulatory framework in the areas where the state utility is not present. An IDA-funded key national technical workshop on the reform of the electricity regulation will take place on November 4 to 6, 2015 in Haiti, with the support of donor partners.

Question: The volume of the facility under component 2 is relative small. The transaction cost of creating a separate structure with a private fund manager would be comparatively high. Has the option to implement the facility with an existing local financial intermediary been considered?

Response: In due diligence, the WB team concluded that no private Haitian financial intermediary had the requisite skill or experience to achieve the Fund's objectives. Haitian financial intermediaries have had extremely limited experience with equity investing, venture investing or investing in sustainable energy access businesses. This is why it was decided that a local financial institution should be partnered with an international fund manager with the requisite investing experience in other frontier markets.

Question: The fund manager is expected to be a consortium of an international fund manager and a local FI. Would the local FI be expected to leverage the funding available under component 2 with own funds?

Response: Although the Fund Manager is not expected to invest its own funds, it is expected that the Fund Manager's successful development of businesses in the energy access sector through its investments will attract other co-investors and co-lenders which the project will engage with.. .

Question: To exit equity investments in due time would be a major challenge, especially in the Haitian context. Are there expected exit options? We would suggest that the fund manager to be selected should be able to present possible exit strategies.

Response: There is no easy solution to the challenge of exiting an equity investment in frontier markets such as Haiti – however, we agree with your suggestion that the selected fund manager consider possible exit strategies. The Fund is structured on the premise that its investments will develop high value, high growth businesses that will achieve significant value if they are successful (recognizing that not all businesses will achieve these goals and not all investments will be successful). With this premise, we believe that the initial 10 year time horizon of the Fund is sufficient for the Fund Manager to exit from its successful investments. The leading companies in the energy access sector in Africa have grown so much in value that any equity investor in them today could easily exit - and many of those companies are only at the beginning of their growth curves.