PROJECT INFORMATION DOCUMENT (PID)
CONCEPT STAGE

Report No.: PIDC637

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Rebuilding Energy Infrastructure and Access (P127203)</th>
</tr>
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<tbody>
<tr>
<td>Region</td>
<td>LATIN AMERICA AND CARIBBEAN</td>
</tr>
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<td>Country</td>
<td>Haiti</td>
</tr>
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<tr>
<td>Lending Instrument</td>
<td>Specific Investment Loan</td>
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<td>Project ID</td>
<td>P127203</td>
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<td>Borrower(s)</td>
<td>Ministère des Travaux Publics, Transports, Energie et Communication</td>
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<td>Implementing Agency</td>
<td>Electricité d’Haïti</td>
</tr>
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<td>Environmental Category</td>
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<td>Date PID Prepared</td>
<td>01-Oct-2012</td>
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<tr>
<td>Estimated Date of Appraisal Completion</td>
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<td>Estimated Date of Board Approval</td>
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I. Introduction and Context

Country Context

Haiti is the poorest country in Latin America and the Caribbean and among the poorest in the world. Over half of the 10 million population lives in absolute poverty (less than US$1 per day) and 78 percent with less than US$2 a day. Around 4.5 million Haitians are estimated to be destitute, most of whom live in rural areas, with the rest living in the capital city and other urban areas. Income inequality is among the highest in the Latin America and the Caribbean, with a Gini coefficient of 0.65, versus 0.50% on average for the rest of the region. Since 2008, the country has faced a sharp rise in basic food and fuel prices, exceptionally difficult weather conditions (four consecutive hurricanes in 2008), a major decline in remittances and in international trade due to the global economic crisis, and the devastating earthquake of January 12, 2010.

Poverty and social conditions severely worsened following the precarious humanitarian situation that ensued from the earthquake, which damaged physical infrastructure in and beyond Port-au-Prince, Leogane and Jacmel, including schools, hospitals, housing, electricity, water, and telecommunications, and caused tremendous human loss. Latest estimates indicate that more than 100,000 people were killed, 300,000 people were injured and 1 million people were left homeless and living in camps throughout Port-au-Prince and other cities. In total, around 3 million people were affected by the earthquake.
Following a period of political volatility during the presidential elections, the country has been experiencing relative stability since the inauguration of Michel Martelly as President of Haiti on May 14, 2011. Nevertheless, weak economic growth, high unemployment, low investments, and the cholera epidemic continue to weigh on the tenuous economic and social situation.

Providing reliable and sustainable access to electricity and other energy services is essential to achieve an economic recovery in Haiti and improve the quality of life of the population. Industrial and commercial activities - the main drivers of job creation - cannot develop in a sustainable manner without affordable, good quality power supply. Electricity is also paramount to the delivery of basic services to the population, such as healthcare, education and security. Most Haitians will continue to rely on other energy sources for cooking and heat (woodfuel, charcoal), which are causing continued environmental damage to an over-strained resource base.

Sectoral and Institutional Context
The energy sector is facing a sustained dual crisis, reflected in the electricity and household energy sectors. In the electricity sector, this crisis is characterized by a lack of supply, poor quality of service, high costs, inadequate governance and oversight, and unsustainable financial fundamentals. In the household energy sector, overreliance on scarce wood fuel resources for cooking has had serious economic, environmental and health impacts. The situation has contributed to an increase in charcoal prices and a near complete deforestation of Haiti with problems of watershed instability, soil erosion, and flooding.

1. The Power Sector

The key challenges affecting the power sector are: (i) Weak institutional framework and governance; (ii) Lack of financial sustainability and poor commercial management of the sector enterprise; and (iii) Low access and poor quality service.

Institutional Framework and Governance Challenges. The Ministry of Public Works, Transportation and Communications (Ministère des Travaux Publics, des Transports et de la Communication - MTPTC) is responsible for the oversight of the energy sector, alongside other large infrastructure sectors such as transport, water and housing. The Energy Sector Management Unit (Unité de Gestion du Secteur de l’Énergie - UGSE) of the MTPTC, staffed with four full-time consultants, was created only in late 2009 to assist the Ministry with energy policy and planning. The Office of Mines and Energy (Bureau des Mines et de l’Énergie - BME), also under the authority of the MTPTC, focuses on energy for petroleum products, cooking and mining issues. This set-up is likely to evolve in the coming months after the new Government takes office.

The power sector utility, Electricité d’Haïti (EDH), is the vertically integrated public enterprise that faces considerable technical, managerial and financial challenges. It has a monopoly over the transmission and distribution of electricity in Haiti, but purchases more than 80% of the energy it distributes from Independent Power Producers (IPPs). Technical and commercial losses amount to more than 50 percent, and the utility recovers only about 30% of the electricity it produces or purchases. As a result, EDH is unable to pay for the cost of basic maintenance services, fuel and payments due for generation under Power Purchasing Agreements (PPAs) signed with IPPs.

Sector Policy. The Government has been moving to redefine its strategy for the sector. Specifically, it launched in December 2010 a process of modernization of EDH, led by the Council for
Modernization of Public Enterprises (CMEP). The process involves preparing detailed diagnostic studies to determine the best option for sector modernization, a decision-phase based on a consensus-building process, and the activities required for implementing the chosen model. The Government recently finalized the recruitment of a short-term ‘operations improvement contractor’ (OIC) financed by USAID, to manage EDH’s operations during two years. The selected firm is preparing a management plan for EDH, which it will present to the Government in September 2011.

2. The Household Energy Sector
Issues in the energy sector go beyond the power sector. The majority of the Haitian population - more than 80 percent - relies on traditional biomass fuels- wood and charcoal- for cooking. Annual consumption of charcoal is estimated to be at around 4 millions of tons per year (around 30 million trees), a consumption rate that is quickly exhausting Haiti’s few remaining trees. The prevalence of charcoal and wood fuel for cooking has also led to serious health impacts at the household level. After the earthquake, pressure on traditional biomass resources may have become even more acute. Inevitably, supply and distribution chains will need to adjust to the changing spatial distribution of the population. The breadth of the issues spans across the environment, energy and agriculture sectors and has raised challenges for the Government. However, the continued failure to provide adequate policies and mitigation actions has perpetuated a cycle of poverty, deforestation and environmental degradation.

3. Donors Partnerships in the Sector
USAID, IDB and the Bank recently developed a common strategy for the sector, following consultations with the Haitian Government and in line with the new Country Partnership Strategy under preparation. The strategy is built around the following key objectives: (i) creating a financially viable sector; (ii) establishing effective governance and oversight; and (iii) increasing access and quality of energy services, with a focus on renewables and the need to address both the electricity and the household energy (biomass) dimensions. To achieve these objectives, these three donors are discussing with the Government a Program of investments, exceeding US$400 million over the next five years. Key investments under this program would include the rehabilitation and expansion of the generation, transmission and distribution infrastructure (including in rural areas), support to improve EDH commercial and financial performance, and the establishment of an adequate institutional and regulatory framework for the sector. In January 2011, a memorandum of understanding was signed, calling, inter alia, for the implementation of an ‘Operations Improvement Contract’ (OIC) for EDH and outlining the planned investments in the sector. The contract will benefit from the presence of the four international experts hired by EDH almost one year ago.

In response to the sector governance challenges, key elements of the Donors’ joint approach are to: (i) strengthen the sector’s key institutions, in particular MTPTC and EDH, through capacity building; (ii) improve the rules and enforcement capacity for the sector, in part through a redefinition of the regulatory framework and through technical assistance; (iii) strengthen transparency and accountability in the sector, including improved information systems and monitoring mechanisms; and (iv) deploy an active coordinated and focused engagement by the Donors on sector governance.

Relationship to CAS
The objectives of the proposed Project are fully consistent with the Haiti Country Assistance Strategy (CAS) for FY09-12, reviewed in June 2009, under the pillar “promoting growth and local development”. Bank support under this pillar will contribute to generating income earning opportunities. It is also consistent with the new directions of the Haiti program following the earthquake, as being articulated in the new Country Partnership Strategy currently under preparation, including an emphasis on governance improvement.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)
The objectives of the proposed Project are to strengthen energy policy and planning capacity and expand access to reliable electricity services in urban and rural areas and to sustainable energy for cooking.

Key Results (From PCN)
- Component 1:
  □ Strengthening of energy policy, planning and implementation capacity of the MTPTC (including: development of a renewable energy framework and preparation of implementing regulations, presentation of an updated electricity law to Parliament, and preparation of an energy sector master plan).
  □ Improvement in monitoring and transparency of financial flows in the sector.

- Component 2:
  □ Increase in the number of rehabilitated and new connections to electricity in Port au Prince.
  □ Improvement in electricity service quality in Port au Prince.

- Component 3:
  □ Increase in the number of new connections to electricity in rural areas of Haiti.
  □ Increase in the number of improved cookstoves deployed.

III. Preliminary Description

Concept Description
The proposed Project consists of three components, scheduled to be completed within a 5-year period (March 2012-February 2017).

Component 1: Institutional strengthening and governance enhancement (US$8 million). This component would increase capacity and improve governance in the sector through capacity building support to the main sector players: the Government, EDH, and consumers. It would finance the provision of technical assistance (through consulting services, and training) and the purchase of office equipment and related expenses to support to the implementation capacity of both the Government and EDH. The proposed activities would contribute to a broader energy sector Governance Enhancement Program discussed and agreed with the Authorities.

1.1 Government: This sub-component would strengthen the Government’s oversight of the energy sector by developing and staffing a ‘Direction de l’Energie’ or a similar body to be agreed with the Government. It would help this entity gain capacity and empowerment to perform the following key functions: (i) definition of an energy policy, and supervision of its implementation; (ii) development of a planning capacity (through, among others, the elaboration and periodical updating of Master
Plans); (iii) establishment of a monitoring framework for the sector’s operational and financial performance, including the creation of an energy information system; and (iv) development and enforcement of a regulatory framework to promote efficiency and accountability as well as to attract the private sector and other actors to implement the action plans. Finally, thee activity would support the Direction in establishing two specialized entities, the household energy and rural electricity units. These activities would be carried out in coordination with the ongoing 2011-2012 Energy Sector Management Assistance Program (ESMAP) financed Technical Assistance for the Strategic Development of the Energy Sector.

1.2. EDH. This second sub-component would enhance the performance of EDH’s management by improving the utility’s financial and operational capacity, focussing on service quality improvement and loss reduction actions. Support would be provided through the provision of technical assistance, the preparation of technical studies and the acquisition of office equipment. These activities would be implemented in close coordination with the operations improvement contract and complement ongoing efforts to reduce losses (notably non-technical) under the PREPSEL project (US$11 million IDA-financed grant, 2006-2013). Specific emphasis will be put on the need to substantially improve the quality of operational management and increasing transparency in the flow of information within EDH, at the operational and financial levels.

1.3. Consumers and civil society. This third sub-component would strengthen the capacity of other key stakeholders in the electricity sector, notably consumers and civil society. It would include financing for outreach activities and public dissemination campaigns to be carried out to familiarize consumers and civil society with Government’s energy program and increase consumer awareness of energy related issues. This component would be carried out in partnership with relevant players in the respective areas (e.g. EDH, household energy and rural electrification units, BME, etc.).

Component 2: Grid rehabilitation and expansion in the metropolitan area (US$ 40 million). This component would rehabilitate and expand the infrastructure to serve more customers and improve the quality of electricity services in the metropolitan area, through: (i) the rehabilitation and expansion of the transmission network, and (ii) the rehabilitation and expansion of the power distribution network. It is anticipated that IDB and USAID would also finance related investments under their respective energy sector support programs.

Component 3: Energy access expansion (US$ 52 million). This component would increase connections to electricity outside of Port au Prince and access to more efficient and healthier cooking appliances throughout Haiti through:

3.1. Enhancing grid-based access for electricity services in secondary urban, peri urban and rural areas. This activity would establish new connections in urban, peri urban and rural areas, including in and around secondary centres.

3.2. Increasing rural access to electricity. Under the supervision of the MTPTC, this sub-component would establish new connections in rural areas not served by EDH, combining grid extension and off-grid solutions, including through the short/medium term acquisition and deployment of solar photovoltaic (PV) systems. The sub component would finance the purchase and installation of equipment and the provision of maintenance services to ensure sustainable access.

3.3. Increasing sustainable access to energy for cooking. This activity would implement measures to
increase energy efficiency in cooking and sustainable access energy resources through the short term deployment of certified improved cooking stoves and the introduction of sustainable community-based wood management initiatives.

### IV. Safeguard Policies that might apply

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### VI. Contact point

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