I. Key Development Issues and Rationale

1. The performance of Haiti’s electricity sector is very weak. With one of the lowest access rates in the World (12.5% in 2005) and a financially fragile national utility (EDH), sector rehabilitation and reform present considerable challenges. In a context of competing priorities and limited resources, Bank support under the US$6 million Haiti Electricity Loss Reduction Project (PREPSEL) initially focused on basic rehabilitation of the sector’s information tools and on achieving improvements in service to key consumer segments. PREPSEL (i) puts in place two information systems (the Customer Management System - CMS - and the Technical Service Management System - TSMS) and (ii) aims to improve electricity infrastructure in one area of the capital (Port-au-Prince) and for large customers.

2. The proposed US$5 million Additional Financing (AF) will help achieve the objectives of PREPSEL and enhance their development impact, while broadening the scope of the project’s intervention. First, the AF will help introduce improved commercial and financial management, planning, HR and internal control practices in EDH and build the company’s capacity to maintain such practices. This will be achieved through the introduction of four high-level experts in EDH’s management. These “Special Deputies” will report directly to the CEO and become responsible for improving policies and practices in the Commercial, Finance, Technical and Planning Departments. The building of capacity together with hands-on implementation of good business practices is expected to have a multiplication effect and allow maximum synergies with the support already provided by PREPSEL, namely the implementation of a commercial management system and rehabilitation works.
3. The results of external management assistance to utilities in developing countries have been mixed, due in great part to the lack of sustainability of management practices beyond the presence of such management. However, experience shows much better outcomes where there is strong political commitment. The technical assistance proposed here is likely to have positive outcomes because (i) the management improvement measures proposed are derived from a solid analysis financed by PPIAF of a full set of alternatives to strengthen utility performance and (ii) Government has demonstrated ownership of these measures through its deep involvement in their definition and its request to allocate scarce IDA resources to their implementation.

4. Second, additional financing is needed to complete the implementation of the original Project’s components through the financing of cost overruns for the key information and remote-metering systems. Additional funds are required to cover the premium charged by international suppliers to undertake contracts in Haiti, which had been underestimated at the time of project preparation. Third, the AF will provide support to the Ministry of Public Works for the oversight of the sector and of the Project, and finance increased project management costs due to the increase in project scope and duration. A basic capacity is needed in the Ministry of Public Works to oversee the implementation of the technical assistance to take place at EDH and monitor and evaluate its outcomes.

II. Objectives

5. The objective of the Additional Financing is to (i) improve the management of the utility by providing a two-year program of technical assistance to EDH, (ii) finance cost overruns for the two customer systems and the remote meters, which were bid out in the second half of 2009, and (iii) help strengthen the capacity of the Ministry of Public Works to oversee the energy sector and cover additional project management costs. The combined Project would then consist of the components described below.

III. Description

6. Component 1: Improvement in EDH management systems and practices (Original including reallocation: US$2.19 million, Additional US$1.49 million, Total: US$3.68 million). The component finances the purchase of two systems (the commercial management and technical management systems) for the utility, which will help improve billing and quality of service. The AF would finance the cost overruns incurred for the purchase of the Customer Management System and the Technical Service Management System. These include: US$0.19 million for the Customer Management System (CMS), and US$1.3 million for the Data Processing Center, shared by both CMS and TSMS.

7. Component 2: Improvement in quality and reliability of services and increase in revenue collection of EDH (Original: US$3.15 million, Additional US$0.37 million, Total: US$3.51 million). The component supports the implementation of the CMS and TSMS in a specific zone of Port au Prince and for the large customers of EDH, through targeted investments in equipments for the distribution, including meters and transformers, and support for the selection of adequate staff. The AF would finance expected cost overruns in the component related to the purchase of remote meters for the large clients, and to include the purchase of remote meters to accurately measure energy produced by Independent Power Producers.
8. Component 3: Participatory approach, project management, monitoring and impact evaluation, and replication strategy (Original: US$0.66 million, Additional US$0.42 million, Total: US$1.08 million). This component finances internal and external communication campaigns for the Project, as well as costs of the Project Coordination Unit. The AF would finance: (i) the Project Coordination Unit (composed of the Coordinator, the Financial Management Specialist and the Procurement Specialist) during the two-year extension hereby requested to carry out the scaled-up activities, (ii) the monitoring and evaluation of the performance indicators by the PCU and (iii) the strengthening of the capacity of the MTPTC to oversee the performance of EDH, and in particular that of Technical Assistance Program.

9. Component 4: Management support to EDH (Original: US$0 million, Additional US$2.57 million, Total: US$2.57 million). The AF will finance a program of technical assistance to support EDH management. This program will consist in the introduction of four international experts in EDH’s management structure to enhance the performance of the Commercial, Technical, Finance/Administration and Planning Divisions and transfer capacity for improved management policies and practices to EDH. The component will also finance the operating costs associated with these experts (living and travel expenses), as well as ad-hoc technical assistance as needed.

10. Contingencies (Original: US$0.01 million, Additional US$ 0.15 million, Total: US$ 0.16 million). AF is being requested to fund possible further cost overruns in the various components of the project.

IV. Financing

<table>
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<th>Source:</th>
<th>($m.)</th>
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<tr>
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<tr>
<td>IDA Grant</td>
<td>5.00</td>
</tr>
<tr>
<td>Total</td>
<td>5.83</td>
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</tbody>
</table>

V. Implementation

11. The institutional arrangements under the original PREPSEL will all remain in place. Project implementation will continue to be managed by the PREPSEL Coordination Unit (PCU), which is under the responsibility of EDH and the Ministry of Public Works (MTPTC). The Technical aspects will be managed by the Project Technical Unit (PTU), which is composed of EDH technical experts and directors.

VI. Sustainability

12. The sustainability of the results of the combined project are ensured in two ways: (i) the installation of commercial and remote metering systems provides tools that – if used correctly - will improve permanently the capacity of EDH to measure consumption and monitor technical failure, and (ii) training: the experts will provide on the job-training to the EDH Directors, who will then be expected to transfer knowledge to their own units, and specific training will be provided to EDH staff in particular through the accounting assistance, the implementation of the commercial information system.
VII. Lessons Learned from Past Operations in the Country/Sector

13. Lessons regarding Technical Assistance. Introducing private sector expertise through individuals, rather than firms, is preferable in difficult environments such as Haiti. The PPIAF study shows that, in countries facing severe constraints and where utilities are very weak, consulting firms have difficulty attracting qualified staff. Over time, firms have been known to replace the staff originally assigned (and vetted for quality by the financing agency) with inexperienced or insufficiently motivated personnel. By hiring individual experts, the Government will have greater control over the quality of the expertise it receives.

14. Replacing staff with external experts is detrimental to building capacity and ensuring sustainability of the Project’s results. Hence, the experts will be paired with the Directors of the corresponding departments, but will not replace them during the two-year technical assistance. They will provide continuous on-the-job training to maximize transfer of knowledge between experts and EDH Staff, and the ownership of reforms. The experts, in turn, will benefit from the Directors’ local contacts and knowledge of the Haitian electricity sector.

15. Granting decision-making authority to the experts increases the likelihood of achieving significant reforms. Experience in other countries has shown that, when experts are introduced without any decision-making power, the measures they recommend are unlikely to be applied. The four experts will be given the authority to make significant and durable changes into the utility’s operations.

16. Providing training at technical levels below Directors’ management levels of the utility is necessary to ensure long lasting transfer of knowledge to the firm. EDH benefited from a technical assistance provided jointly by Electricité de France (EDF) and HydroQuebec International (HQI) from 1994 to 1998. Some of the benefits of this TA, which focused on transferring knowledge to Directors, were lost when most EDH Directors left following a change in the Direction Générale. In the proposed combined Project, a training program for the commercial and finance teams, supported by the implementation of the CMS, TSMS, and RMS, will be financed (under components 1 and 4).

17. Lessons regarding Country Environment. It is essential to take into account the high risk premium associated with working in Haiti when preparing the budget. Costs should be estimated comparing similar purchases in other countries, and adding such a premium. Additional contingency funds have been added under the proposed AF to help face possible cost overruns.
VIII. Safeguard Policies (including public consultation)

<table>
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<tr>
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<td>Projects on International Waterways (OP/BP 7.50)</td>
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</tr>
</tbody>
</table>

IX. List of Factual Technical Documents


X. Contact point
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XI. For more information contact:  
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*By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas*
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