

May 28, 2015

SREP Investment Plan for Haiti Comments from Norway

SREP CIF, Investment Plan Haiti - some comments/questions from Norway

The IP for Haiti has been read thoroughly by our energy department in NORAD (Norwegian Agency for Development Cooperation). Here are some of their comments and questions, which we would ask you to take into consideration when preparing your response to issues raised in the SREP sub-committee meeting discussing the Haiti IP.

Summary

The SREP investment plan (IP) for Haiti is of relatively good quality. However, Norad recommends that SREP elaborates on the following issues:

- The governance structure of the project
- How has lessons learned from other SREP countries informed the project design?
- How has the fragile state context of Haiti informed the project design?
- How realistic is the assumed leverage of funds from the private sector?

Background

Reference is made to the request of 21 April 2015 for comments on the SREP document Investment Plan (IP) Haiti.

SREP (the Climate Investment Fund) will provide US\$ 30 million. The total estimated budget is US\$149.5 million, including contributions from the World Bank and IFC as well as assumed private sector leverage. The overall SREP leveraging factor is estimated to be at least a factor of four.

The project will have five components, i.e. **i**) Renewable Energy RE) for the metropolitan area (on-grid), **ii**) RE for Port-de-Paix remote grid, **iii**) Off-grid electricity, **iv**) Small hydropower and **v**) Enabling framework, capacity and skills. WB will responsible for all components, except component **iii** (IFC).

Norad's assessment:

Relevance. The relevance of the proposed project components seems high.

Investment plan quality. Norad's assessment is that the investment plan by and large is of good quality.

Realistic leverage? According to the financing summary, the leveraged private sector financing will be US\$ 79 million. (US\$ 30, 4 and 45 million for components **i**), **ii**) and **iii**) respectively). The IP lists quite a few hurdles for private investments in Haiti. Experience from other developing countries with less challenging business environments shows that there is no quick fix for substituting expensive diesel and heavy fuel oil electricity generation with renewable energy technologies.

On one hand the IP states that:

“Several companies, including reputable international investors, are already conducting on-site feasibility studies and discussing with government the potential investment modalities such as PPPs.”

On the other hand the IP also states that:

“If a PPP approach is not feasible or would lead to terms unfavorable to the government, a public sector option—an EPC (engineering, procurement and construction) contract plus an operation and maintenance contract to the private sector—could be considered. The final technology and deal structure will be decided when SREP implementation starts, based on a more detailed analysis in the new Electricity Master Plan (to be released this year) and information on variable RE grid absorption, relative benefits in situ, private sector interest, and EDH performance at that time. The experience will be used to develop frameworks and instruments to encourage larger RE investments and scale-up.”

This paragraph indicates a considerable uncertainty with regard to private sector leverage. In Norad’s opinion, the assumed private sector leverage should be assessed into more detail.

Lessons learned. According to the IP, SREP will support the government’s path along the learning curve of RE planning and dispatch by applying lessons from other countries and optimizing the volume of on-grid RE interventions.

However, Norad cannot see that there are any references to lessons from SREP projects in other countries. In some of these countries, such as Nepal, it has taken more years to move from an approved IP to implementation. We would thus like to challenge SREP on how experiences from other SREP countries have been used.

Fragile state context. Compared with other SREP countries as Nepal, Ethiopia and Tanzania, the enabling environment for successful implementation of SREP in Haiti is much more challenging. The IP refers to the Electricity sector Project Implementation Unit (PIU), which may address some of the particular challenges in Haiti. Still, Norad recommends that SREP elaborates on how the more challenging context in Haiti has informed the project design.

Project governance. There is no reference to project governance, such as a Steering Committee. Norad assumes that the project components will be managed as part of ongoing/planned WB and IFC projects. In any case, some questions in this regard are:

- Is there a risk of parallel structures?
- What is the role of the government? (On one hand, does the government have sufficient ownership/participation in project governance. On the other hand, does the government has sufficient commitment to remove barriers for private investments?)

Cross-cutting issues. There are quite a few references to cross-cutting issues, including gender (with a particular reference to capacity building targeting women), environmental and social impact standards, in the IP. The challenge may rather be if these issues are complied with in the implementation phase.

Anti-corruption measures. Corruption is not listed as a risk and there is only one reference to corruption in the document. However, the IP refers to the Electricity sector Project Implementation Unit (PIU), which is now composed with eight staff and consultants, experts in energy project management, procurement and fiduciary management; financed mainly by the World bank and IDB projects. According to the IP, this team has benefited from the institutions' training throughout the years (on Safeguards, Procurement, Monitoring and Evaluation, and Communication), and has been considered in 2014 as the best Government's team for financial reporting of donor funded projects, all sectors wide.

Coordination with UNEP. Norway is also supporting energy activities in Haiti through UNEP. Coordination with UNEP has been satisfactorily addressed. (Andrew Morton, the UNEP - Haiti Sustainable Energy Manager, has been peer-reviewed the IP). As always, the actual coordination also has to be followed up in the implementation phase.

Regarding Norwegian funding of hydro power plants According to the IP *“Norway is supporting the planned rehabilitation of one hydro power plant and the construction of two other small-hydro power plants in the South Department. The Power Purchase Agreement is currently being discussed with the Government. Once consensus has been reached, Norway’s Development Banks will make funds available to provide financing (AAA rating) to the Haitian company that is supposed to renovate, build and operate the power plants. In addition, Norway made available through an IDB administered escrow account, an amount of US\$3 million as guarantee funds for renewable energy projects in the South, starting with the hydro power plants project mentioned above.”*

To Norad's understanding, this has not progressed, due to slow decision making processes in the government. This may also be an indication of the challenges that implementation of some of the SREP components may face.

We hope these comments are useful. We are looking forward to continued good dialogue.