Report Number: ICRR12761

IEG ICR Review

Independent Evaluation Group

1. Project Data:		Date Posted: 09/27/2007		
PROJ ID :	P040506		Appraisal	Actual
Project Name:	Gz-elec.Sec.Inv.& Mgmt	Project Costs (US$M):	91.0	53.77
Country:	West Bank & Gaza	Loan/Credit (US$M):	15.0	14.96
Sector Board:	EMT	Cofinancing (US$M):	73.0	14.44
Sector(s):	Power (90%) Central government administration (10%)			
Theme(s):	Infrastructure services for private sector development (29% - P) State enterprise/bank restructuring and privatization (29% - P) Regulation and competition policy (14% - S) Pollution management and environmental health (14% - S) Rural services and infrastructure (14% - S)			
L/C Number:				
		Board Approval Date:		08/31/1999
Partners involved:	EIB, Government of Italy	Closing Date:	06/30/2004	12/31/2006

Evaluator:	Panel Reviewer:	Group Manager:	Group:
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2. Project Objectives and Components:

a. Objectives:

Overall Project Objective: As stated in the Project Appraisal Document (PAD) the project was to benefit electricity consumers, predominantly households, through sustainable improvements in the quality of electricity supply .
This objective was to be achieved through fundamental power sector institutional reforms, implemented in parallel with reinforcement of the power system. The specific objectives were: (a) Initiate restructuring of the power sector in accordance with the Palestinian Authority's (PA's) *Statement of Sector Development Policy and Action Program* ("SSDP") issued by the President of the PA and the Chairman of Palestinian Energy Authority (PEA) in 1997; (b) Strengthen the PEA's capacity to put in place power sector reforms and sector environmental regulations, and establish an overall institutional basis -building on international best practices- for the sustainable operation of the power sector and the safeguarding of consumer interests; and (c) Reinforce the power system in the central and southern regions of the West Bank (areas A and B only), as the first step in the least-cost power system expansion plan aimed at the efficient and reliable provision of electricity .
Key project monitoring indicators were: (1) Power sector reforms including passage of Electricity Law and regulatory framework (policy and guidelines) in place by end of project; (2) Formulation and application of environmental policy

guidelines and regulations; (3) Higher efficiency in electricity distribution, measured by: (i) reduced technical and non-technical losses, (ii) improved customer/employee ratio; and (4) Improved quality of service, indicated by reductions in voltage fluctuation and the number and duration of power outages .

b.Were the project objectives/key associated outcome targets revised during implementation?

No

c. Components (or Key Conditions in the case of DPLs, as appropriate):

The Project consists of three main components:

Component 1: Rehabilitation and upgrading of electric utility distribution facilities in the central West Bank and the Hebron governorate (through the establishment of two new entities, the Hebron Electric Power Company (HEPCo), and Southern Electric Company (SELCo)) and implementation of a distribution dispatching center for the Jerusalem District Electric Company (JDECo). (US$64.1m at appraisal; US$40.6m at completion)

Component 2: Financing of a management contract and other technical assistance to strengthen sector institutions, comprising four sub-components, including: (i) the three-year cost (fixed fees and performance incentive) of a performance-based management contract for SELCo; (ii) technical assistance to JDECo in areas where its own capacity has potential for improvement; (iii) technical assistance to help the municipality of Hebron corporatize and commercialize its electric utility operations; and (iv) technical assistance to the Palestinian Energy Authority to implement the actions specified in the PA's Statement of Sector Development Policy (SSDP). (US$12.2m at appraisal; US$11.5m at completion)

Component 3: Funding the initial startup and operating expenditures, and helping to strengthen both the Hebron and Southern electric companies' capacities to operate as financially sound and technically capable power distribution companies. (US$1.7m at appraisal; US$69.6m at completion)

Revised components: **No**

Other significant changes: **Yes**

Significant difficulties were encountered with the co-financing agencies during the implementation of Component 1 and Component 2 (i). The scope of Component 1 (rehabilitation of the distribution networks) was curtailed. The European Investment Bank (EIB) suspended disbursements to the WBG in 2002 as a result of the PA's failure to meet repayment obligations on previous loans. This significantly reduced the funding available to JDECo for system improvements -all of the expected US$38.0 million from EIB was due to be received by JDECo, but only US$ 12.0 million had been disbursed at the time of suspension. The planned funding for rehabilitation of the distribution utilities from the Government of Italy was delayed by an assortment of procurement issues . As a result, while about 26% of contracts for the supply of materials under Italian funding to JDECo were completed, only two of the three SELCo packages have been contracted, and delivery is not yet complete . The contracts of materials for HEPCo have not been finalized and it is not clear when the planned physical component of the project will be completed . Currently, the Italian government has suspended the procurement process on the grounds that the legal status of HEPCo is unclear

d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:

The project cost (US$53.77 million) was 40.9 percent lower than the appraisal estimate (US$91.0 million) because of a reduction of investment in the rehabilitation of the distribution networks of JDECo, SELCo and HEPCo caused by a reduction of EIB and Italian co-financing. The project was financed with contributions of the Bank Trust Fund for West Bank Gaza (US$14.06 million), the EIB (US$12.0 million), the Government of Italy (US$2.44 million) and local governments (US$24.37 million from provinces, districts and cities). The Trust Fund was declared effective on 03/30/2000 or seven months after Board approval. Its closing date was extended three times for a total of 2.5 years due to the many delays caused by the Intifada (difficulties in moving consultants, utilities staff and materials into and within the region) and complications in the EIB and Italian co-financing. It closed on 12/31/2006 at which time US$0.94 million was canceled.

3. Relevance of Objectives & Design:

The development objectives were in line with the World Bank assistance strategy, and the strategy set out in the PA's SSDP. The relevant key policy objectives were rehabilitation of existing electricity networks and services and its extension; separation of regulatory from commercial functions; encouragement of private participation in the sector; improving the efficiency of distribution utilities; and setting pragmatic tariffs to promote the commercial viability of power utilities while providing lifeline rates for needy consumers. The project's overall objective of sustainable improvements in electricity supply was both realistic and supportive of nation -building efforts.

The design of the project components was consistent with best practices for achieving sustainable and cost -effective electricity supply through the participation of commercialized utilities within a legal and regulatory framework that protects consumers' interests. The Bank provided financing for technical assistance to support institutional development and for the implementation of the physical works by HEPCo and SELCo, while the Government of Italy

and the EIB committed co-financing to acquire the materials and equipment needed to rehabilitate the distribution networks. While JDECo had the financial and institutional capacity for implementing their investment components, the technical assistance was designed to strengthen HEPCo and SELCo capacity to implement their investment components.

4. Achievement of Objectives (Efficacy):

Overall Project Objective:To benefit electricity consumers, predominantly households, through sustainable improvements in the quality of electricity supply.

In terms of overall outcomes, the indicators demonstrate substantial progress in the efficient and reliable provision of electricity. A substantial amount of rehabilitation and expansion of lines and substations was completed in the JDECo service area: it installed a modern SCADA system and a new computerized IT system for billing and collections; improved customer service and reduced technical losses from 10% to 8% and the duration of annual power cuts from 950 hours to 480 hours; increased the number of customers served by 26.9% or 4.9% per annum and the total MWh billed by 27.9% or 5% per annum. However, JDECo had less success in reducing non-technical losses. Non-technical losses are now estimated to be 12% vs. 7% at the beginning of the project. An extensive program to cut off supply to non-paying customers and introduce prepayment metering has not been effective because it led to a sharp increase in illegal connections. JDECo has hired additional staff in an attempt to reduce non-technical losses - which in turn has decreased its ratio of customers/employee.

Rating: Substantial

Objective (a) *Initiate restructuring of the power sector*

The PA has achieved most of its sector reform objectives as defined in its SSDP. The PA has implemented the commissioning of a privately developed power plant in Gaza and the formation of the electricity distribution companies HEPCo and SELCo, and has also made substantial progress in extending the electricity services and setting tariff, and separating the policy and regulatory functions in PEA from the commercial functions of the electricity distribution companies. However, the realization of two important measures are pending: (i) The consolidation of high-voltage networks and functions into a transmission company has not been done, which PEA has justifiably not implemented yet because the network is not yet configured or operated in a way that requires high-voltage transmission; and (ii) The establishment of an independent regulatory agency under an Electricity Law that has not yet been approved by the Council. The lack of the Electricity Law, however, has not impeded sector reform nor indicated reluctance by the PA to implement reforms and upgrade regulatory capacity. Overall, these are modest achievements vis-à-vis the targets of two key project monitoring indicators: the power sector reforms including passage of Electricity Law and regulatory framework (policy and guidelines) in place by end of project; and the formulation and application of environmental policy guidelines and regulations.

Rating: Modest

Objective (b) *Strengthen the Palestinian Energy Authority's (PEA's) capacity and establish an overall institutional basis for the sustainable operation of the power sector and the safeguarding of consumer interests*;

HEPCo showed significant improvement in technical performance, mainly due to corporatization rather than through investments. Total losses dropped from 19% to 16.6%, and the total annual duration of power cuts declined from 60 hours to 26 hours at project completion. HEPCo increased its customer base by an average of 3% per year and increased the energy billed (MWh) by over 10% per year. SELCo began functioning as a utility in 2003, so comparative data is limited. However, the company increased the number of customers served by 6.3%, and the total power delivered to customers by 15.8%. Overall, these are substantial achievements vis-à-vis the targets for two key project monitoring indicators: higher efficiency in electricity distribution, measured by reduced technical and non-technical losses, and improved quality of service indicated by the number and duration of power outages. But the target for improved customer/employee ratio was not achieved.

Rating: Substantial

Objective (c) *Reinforce the power system in the central and southern regions*

Investments were modest because of the delays and shortfalls in co-financing that was only partially compensated with the utilities' own resources. Investment in the central region was approximately as planned, while the southern region got significantly less investment than expected. There was substantial progress on reinforcing the distribution networks. JDECo installed a GIS/NIS system that will interface with the SCADA and billing systems to form the core of an integrated MIS. IT systems were installed at HEPCo and SELCo to the same design and standards as those used by JDECO, which replaced the scattered systems used by municipalities, and have thus improved service levels and efficiency.

Rating: Modest.

5. Efficiency (not applicable to DPLs):

a. If available, enter the Economic Rate of Return (ERR)/Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation :

	Rate Available?	Point Value	Coverage/Scope*
Appraisal	Yes	23%	100%
ICR estimate	Yes	22.6%	60%

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome:

The overall project objective of benefiting electricity consumers through sustainable improvements in the quality of electricity supply was achieved to a substantial extent with significant reductions in power cuts and greater coverage of customers. While some important sector reform and restructuring objectives were achieved, the power sector is yet to establish an independent regulatory agency under an Electricity Law that has yet to be passed . Investments in the southern region lagged behind those in the central region .

a. Outcome Rating : Moderately Satisfactory

7. Rationale for Risk to Development Outcome Rating:

The sustainability of the Project depends on the peaceful settlement of the ongoing conflict in the region, and to the formation of a unified government with pro-active policies. In the absence of these factors, the distribution utilities will have difficulty in establishing and maintaining financial viability, and sector reforms are likely to continue to be postponed by a government that is distracted by other priorities .

a. Risk to Development Outcome Rating : High

8. Assessment of Bank Performance:

The Bank achieved significant up-front actions which were required to demonstrate the Borrower commitment to the project: the Letter of Sector Development Policy and the formation of SELCo and HEPCo . Technical assistance addressed the shortcomings in Borrower implementation capacity . The project's components were defined with close involvement of stakeholders (PEA, JDECo and local municipalities,) and environmental issues were addressed in accordance with Bank requirements. The rehabilitation component of the project was based on a *Generation, Transmission and Distribution Master Plan and Emergency Assistance Project for the World Bank Group* which was prepared by a consultant funded under the Technical Assistance Trust Fund . The resulting master plan was technically sound and accepted by the stakeholders as being appropriate for the development of the power system. While political risks were recognized as "Substantial" at the time of appraisal, the PA had been granted autonomy in areas covered by the project under the Peace Accords .
Supervision missions were carried out on a regular basis and staffed by a suitable skill mix . Early attention was given to organizational and procurement problems and the supervision missions showed appropriate flexibility in addressing issues during implementation. In retrospect, more might have been done to address the slow progress of Italian co-financing. However, each time the supervision missions received assurances that the co-financing problems would be addressed - and in fact on each occasion some modest progress was made .
Based on the above, the overall Bank performance on the project is rated Satisfactory

a. Ensuring Quality -at-Entry: Satisfactory

b. Quality of Supervision : Satisfactory

c. Overall Bank Performance : Satisfactory

9. Assessment of Borrower Performance:

The government generally provided the necessary ongoing support during the implementation of the project once it fulfilled its commitments during project preparation and appraisal (Letter of Sector Development Policy and the formation of SELCo and HEPCo). Although it proved unable to follow through on its commitment to the implementation of sector reforms (in terms of failure to achieve the support of the Legislative Council on establishing the necessary legal and regulatory framework), it did not interfere with the implementation of the TA and investment components of the project.
HEPCo and SELCo: They initiated project activities with some delays possibly due to lack of experience on the

part of their stakeholders particularly in connection with the financial and management implications of establishing commercial enterprises. Later, the companies were effective and supportive of the project. Unfortunately, the protracted co-financing from Italy forced HEPCo and SELCo to invest US$ 5.0 million in network reinforcements from their own resources to achieve US$ 24.37 million in investments under the project.
JDECo: It successfully implemented their parts of the project in a timely fashion. It complied with financial performance covenants and submitted its audited financial statements timely. JDECo was able to provide US$14.2 million from its own funds to partially compensate for the loss of US$ 26.0 million from European Investment Bank (EIB) and the delay of US$6.0 million in procurement originally targeted to Italian co-financing for substation improvements, SCADA and other components. JDECo was obliged to significantly increase its staffing from 494 in 1999 to 563 in 2002 in an attempt to manage accounts receivable and ensure an adequate cash flow.
PEA: It successfully implemented their parts of the project in a timely manner.

a. Government Performance : Satisfactory

b. Implementing Agency Performance : Satisfactory

c. Overall Borrower Performance : Satisfactory

10. M&E Design, Implementation, & Utilization:

(i) Design: *Rating: Substantial*. The M&E indicators and target levels were generally appropriate to the monitoring of progress and achievements.
(ii) Implementation. *Rating: Modest.* Early in project there were delays in the implementation of the HEPCo and SELCo components that made it impossible to establish baselines and to monitor progress with respect to some of the indicators. Similar delays occurred in monitoring the financial performance indicators for SELCo because the audited financial statements were finalized only after the company's shareholders reached agreement on the value of fixed assets.
(iii) Utilization. *Rating*: *Substantial.* By project completion, virtually all indicators had been gathered and evaluated.

a. M&E Quality Rating : Modest

11. Other Issues (Safeguards, Fiduciary, Unintended Positive and Negative Impacts):

Environment. The project was rated as Category B for environmental assessment purposes. It was executed in compliance with the Bank's Environmental Safeguard Policies and Environment, Health, and Safety Guidelines. An acceptable Environmental Management Plan was formulated and satisfactorily implemented to mitigate the environmental impacts of the physical components of the project. Procurement and Disbursement. They were all managed in accordance with Bank Guidelines. Auditing and Financial statements. Project financial management was well managed in accordance with Bank Guidelines.
Unintended outcomes and impacts: None

12. Ratings:	ICR	IEG Review	Reason for Disagreement /Comments
Outcome:	Moderately Satisfactory	Moderately Satisfactory	
Risk to Development Outcome:	High	High	
Bank Performance :	Satisfactory	Satisfactory	
Borrower Performance :	Satisfactory	Satisfactory	However, the government was unable to follow through on its commitment to the implementation of sector reforms.
Quality of ICR :		Satisfactory	

NOTES:
- When insufficient information is provided by the Bank for IEG to

arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

13. Lessons:

1. The project reinforces previous experiences regarding the importance of maintaining flexibility in project implementation when working in conflict areas, including the possbility of maintaining the momentum on components which may be relatively unaffected by such events (e.g. training, implementation of IT systems, preparation of legal and regulatory documents)
2. The impact of political factors on the conversion of a state-owned enterprise into a corporate company should not be underestimated. This is particularly true when the revenues of an enterprise have previously formed part of the general revenues of the government. In addition to losing day-to-day management control of the corporate company, the government may lose a significant part of its revenue base.

14. Assessment Recommended? ○ Yes ● No

15. Comments on Quality of ICR:

The ICR presents a concise but complete and satisfactory account and evaluation of project background, design, implementation and results in full compliance with the Bank guidelines for the preparation of ICRs.

a.Quality of ICR Rating : Satisfactory