

PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

Report No.: PIDA107328

Project Name	West Bank and Gaza Electricity Sector Performance Improvement Project (P148600)
Region	MIDDLE EAST AND NORTH AFRICA
Country	West Bank and Gaza
Lending Instrument	Investment Project Financing
Project ID	P148600
Borrower(s)	Palestinian Liberation Organization (for the Benefit of the Palestinian Authority)
Implementing Agency	Palestinian Energy and Natural Resources Authority (PENRA)
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	23-Feb-2017
Date PID Approved/Disclosed	29-Mar-2017
Estimated Date of Board Approval	20-Jul-2017
Appraisal Review Decision (from Decision Note)	
Other Decision	

I. Project Context

Country Context

1. Despite a slow recovery from the 2014 recession, the Palestinian economic outlook is grim. The growth rate of the Palestinian economy is projected to be around 3.5 percent in the medium term. Given the high population growth in the Palestinian territories, this implies a near stagnation in per capita incomes. The economy has also not been able to create enough jobs, resulting in stubborn unemployment rates reaching 27 percent in 2016 (18 percent in the West Bank and 42 percent in Gaza), despite recent steps by Israel to increase the number of work permits for West Bank Palestinians. The productive capacity of the Palestinian economy has been eroded over the years with a significant decline in the size of manufacturing and agriculture in the economy (World Bank. Economic Monitoring Report to the Ad Hoc Liaison Committee. September 19, 2016).

2. The current critical situation requires renewed efforts by the donors, the Palestinian Authority (PA) and the Government of Israel (GoI). Until there is a permanent peace agreement, the Palestinian economy will continue to perform below its potential and this will impact the economic and fiscal performance. However, even without a final peace deal there is more that can be done to enhance the performance of the Palestinian economy and improve the fiscal situation. Increased donor support and continued reforms led by the PA are needed to ensure improved competitiveness and fiscal sustainability of the Palestinian economy over time.

Sectoral and Institutional Context

3. In the last two decades, a sustained reform process supported by the donor community has improved and consolidated the Palestinian energy sector from a fragmented municipally-based system to a more efficient single-buyer model. The reform consolidated the electricity distribution services of numerous fragmented municipalities and village councils (MVC) into larger distribution companies (DISCOs) to benefit from economies of scale. At present, Palestine has 6 DISCOs (5 in West Bank and 1 in Gaza), but still has 150 MVCs that have yet to transfer their electricity services. This process has been slowed down due to the challenging situation of municipal finances which lead them to use the revenues from electricity bills to subsidize other municipal services. In 2009 the Palestinian Electricity Regulatory Council (PERC) was established with a mandate of regulating and monitoring the energy sector. In 2013, the Palestinian Electricity Transmission Company Ltd (PETL) was established with a mandate to be the single buyer and Transmission System Operator (TSO) for the Palestinian energy sector.

4. On 13 September 2016, the PA and the GoI signed an agreement to resolve past electricity sector debt and agreed on general principles for a future Palestinian energy market. This agreement confirmed the role of PETL as the sole purchaser of electricity in the Palestinian Territories. The commercial relationship between IEC and PETL would be governed through a Power Purchase Agreement (PPA) to be signed within six months of signing the agreement (March 31 2017). In addition, four high voltage substations financed by the European Investment Bank and constructed by IEC in the West Bank would be energized, bringing critical additional power supply and reducing losses.

5. Despite significant improvements in the electricity sector's performance, further efforts are required to achieve sustained improvements, consolidate sector reform and ensure the successful implementation of the Israeli-Palestinian electricity debt agreement. DISCO's electricity bill collection rates increased from 52 percent (2007) to 84 percent (2015) on average due to the companies' decisive actions supported by the Bank and other donors under the Electric Utility Management Project. Network losses (technical and non-technical) however remain a major source of concern, since 25 percent (2015) of the power purchased is lost and cannot be billed to the end customer (up from 19 percent in 2007). The success of the new electricity debt agreement depends on the fact that PETLs pays 100 percent of the power purchased to IEC. In turn, DISCOs and end consumers need to follow-suit along the value chain.

6. PERC has proven its capacity to monitor and regulate the energy sector, but its role needs to be strengthened. PERC proposed the existing unified tariff for all DISCOs in the West Bank and is responsible for its revisions. Moreover, PERC provides licenses to DISCOS and monitors their financial, technical and operational performance parameters, including losses and collection rates. The government has shown its commitment to strengthen the role of PERC, but further donors support is required.

7. The 1.8 million people living in the Gaza Strip suffer from severe electricity shortages due to the inability to implement sustainable power supply options. The available power supply in Gaza only meets half of the demand resulting in rolling blackouts where 8 hours of electricity supply are followed by 8 hours of power cuts. During winter and summer peak load conditions, the situation deteriorates and power is only available 3-4 hours per day. To punctually address these emergencies, bilateral aid from generous donors provide large sums of funding for additional emergency diesel fuel for the highly inefficient and expensive Gaza Power Plant (GPP). Alternative solutions to provide more sustainable supply options, such as increased imports from Egypt and Israel, and the conversion of the Gaza Power Plant (GPP) to run on natural gas instead of diesel, have been in negotiations for over a decade. However, none of them have progressed due to political stalemate. The development of

distributed solar PV could improve the living conditions of a significant number of households, while a solution to the other power supply options progress.

II. Proposed Development Objective(s)

The Project Development Objective is to enhance the energy sector’s institutional capacity, improve efficiency of the distribution system in targeted areas, and pilot a new business model for solar energy service delivery in Gaza.

III. Project Description

Component Name

Component 1 - Strengthening the capacity of Palestinian electricity sector institutions: PETL and PERC

Comments (optional)

This component focuses on the sustainability and performance of the Palestinian Electricity Transmission Company Ltd (PETL) and the Palestinian Electricity Regulatory Council (PERC).

Sub-Component 1.1: Strengthen the Capacity of Palestinian Electricity Transmission Company Ltd - PETL (US\$1.8 million)

Sub-Component 1.2: Palestinian Electricity Regulatory Council - PERC (US\$0.7 million)

Component Name

Component 2 - Improving the operational performance of Palestinian Electricity Distribution Companies (DISCOs)

Comments (optional)

This component focuses on the sustained improvement of operational performance of the five DISCOs in the West Bank. It includes a “Revenue Protection Program” (RPP) with improved metering and billing systems.

Sub-component 2.1: Revenue Protection Program (US\$1.4 million)

Sub-component 2.2: Management Information Systems (US\$1.4 million)

Component Name

Component 3 - Improving energy security in Gaza with solar energy

Comments (optional)

This component supports the design and implementation of a pilot business model for rooftop solar energy in Gaza.

Component Name

Component 4: Technical Assistance, Capacity Building and Project Management

Comments (optional)

This component will be used to strengthen the capacity of PENRA and support staffing the Project Management Unit (PMU) for two years.

IV. Financing (in USD Million)

Total Project Cost:	8.00	Total Bank Financing:	0.00
Financing Gap:	0.00		
Financing Source			Amount
State and Peace Building Fund			2.00

Special Financing	6.00
Total	8.00

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V. Implementation

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	X	
Natural Habitats OP/BP 4.04		X
Forests OP/BP 4.36		X
Pest Management OP 4.09		X
Physical Cultural Resources OP/BP 4.11		X
Indigenous Peoples OP/BP 4.10		X
Involuntary Resettlement OP/BP 4.12		X
Safety of Dams OP/BP 4.37		X
Projects on International Waterways OP/BP 7.50		X
Projects in Disputed Areas OP/BP 7.60		X

VII. Contact point

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