PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

Report No.: PIDA33

Project Name	GZ-Gaza Electricity Network Rehab (P116199)
Region	MIDDLE EAST AND NORTH AFRICA
Country	West Bank and Gaza
Sector(s)	General energy sector (100%)
Lending Instrument	Specific Investment Loan
Project ID	P116199
Borrower(s)	Palestine Liberation Organization (PLO) for the benefit of the Palestinian Authority (PA)
Implementing Agency	Palestine Energy Authority Project Management Unit
Environmental Category	B-Partial Assessment
Date PID Prepared	29-Dec-2011
Estimated Date of Appraisal Completion	05-Dec-2011
Estimated Date of Board Approval	23-Feb-2012
Decision	Following approval of project appraisal, the decision was taken to proceed with the negotiation and Board presentation of the operation.
Other Decision	N/A

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I. Project Context

Country Context

The economic situation in the West Bank and Gaza (WB&G) is fragile and largely sustained by high capital inflows from donors, bilateral assistance programs and the United Nations. In 2009, the Palestinian Authority (PA) received more than US$1.355 billion in budget support from donors alone. Real economic growth in WB&G is estimated to have reached 9.3 percent in 2010, exceeding the PAs projection of 8 percent. Growth does not, however, appear sustainable. It reflects recovery from the very low base reached in 2005and is still mainly confined to the non-tradable sector and primarily donor-driven.

The population in the West Bank and Gaza was about 4 million in 2010, and is growing about 2.7 percent per annum. Income per capita in 2008 averaged US$1,340 (about US$1,718.40 in West Bank and US$774.50 in Gaza based on PCBS data). Unemployment declined slightly from 24.5 percent in 2009 to 23.4 percent in 2010, but still remained high primarily due to the situation in Gaza which reported an unemployment rate of almost 39.3 and 37.4 percent in 2009 and 2010.

The Gaza economy appears to have rebounded sharply in 2010 with the opening of the crossings to more goods and initial estimates suggest that real growth was nearly 15 percent of GDP in 2010, albeit from a very low base. This does not signal that the Gaza economy is fully recovering and the private sector remains in a state of near total collapse, but it does reflect the development of coping mechanisms that have allowed some economic activity to resume on a very limited scale.

The Palestinian National Development Plan for 2011-2013 anticipates that the total cost for the recovery and reconstruction of Gaza amounts to US$ 1,326 million of which US$531 million is for infrastructure. , The rehabilitation of infrastructure networks (including electricity) comprises a large part of the recovery requirement in Gaza. A recent survey by the Palestinian Federation of Industries found that only 54 percent of industrial establishments destroyed in the December 2008 conflict were fully or partially rebuilt and only 23 percent of the work force was re-hired.

II. Sectoral and Institutional Context

Electricity Demand and Supply

According to World Bank and PEA reports and the Palestinian Authority's Energy Sector Strategy (2011-2013), consumption of electricity in the West Bank grew at 6.4% annually from 1999 to 2005 and 8% between 2006 and 2010, and is projected to grow steadily at a rate of about 7% from 2011-2013. Consumption of electricity in Gaza grew on average at about 10% annually from1999 to 2005. However, in recent years, electricity demand and growth in Gaza have been limited by the shortage of supply, damage to electricity networks and the blockade.

The Israel Electricity Company (IEC) supplies electricity to the WB&G with over 85 percent market share, making it the largest provider of electricity. The West Bank is highly dependent on electricity from the IEC at a reported 2,735,650 MWh, which makes up about 98 percent of total electricity supplied in 2008. The remaining marginal supply of 2 percent comes from cross-border connections with Jordan. While in Gaza, the electricity comes from three different sources: (i) import from IEC, (ii) import from Egypt, and (iii) the Gaza Power Plant (GPP).

Electricity transmission to West Bank and Gaza is handled through IECs medium voltage lines (22kV or 33kV), while distribution networks are rather fragmented and have been handled by a combination of distribution utilities and municipalities.

Sector Reform and Institutions

The PA has implemented much of its medium-term power development strategy as set out in the 1997 policy statement through the Palestine Energy and Natural Resources Authority (PEA) and embarked on policies to reduce net lending on electricity. It created three additional electricity distribution companies: the Northern Electric Distribution Company (NEDCO) that was established in the northern region of the West Bank in January 2008, and began operation of the electricity services in Nablus and Jenin in 2010; the Hebron Electric Power Company (HEPCO) and Southern Electric Power Company (SELCO) that were created around 2003-2004 in the southern region of the West Bank. These three utilities joined the long-established utility serving the central area around Jerusalem - the Jerusalem District Electricity Company (JDECO) to service the entire West Bank and part of Jerusalem, while the Gaza Electricity Distribution Company (GEDCO), which was established in 1998 by a ministerial decree, is responsible for electricity distribution in Gaza.

In addition, the Electricity Law was also approved and enacted in May 2009 and in February 2010 the President approved the establishment of the Palestinian Electricity Regulatory Commission (PERC).

Electricity Supply in Gaza

The existing supply capacity from IEC to Gaza is approximately 120 MW and energy is fed from Israel through 10 points along the border from north to south via 22 kilovolt (kV) lines. Gaza also receives up to 17 MW from Egypt since 2006 as an emergency measure via two 22 kV feeder lines. The generating capacity of the diesel-generated Gaza Power Plant (GPP) is 140 MW; however, the maximum dispatchable capacity is restricted to 60 MW due to the plants limited transmission capacity after the 2006 conflict. Moreover, the plants utilization rate can decrease further due to limited diesel availability. Hence, if the available capacity from GPP ranges from 30 to 60 MW, total electricity supply would range from 167 to 197 MW.

In recent years, electricity demand and growth in Gaza have been limited by supply shortages, damage to electricity networks and the blockade. Total peak electricity demand in Gaza was estimated at 280 MW in 2010 which was much higher than available capacity. To cope with the situation, 8-hour electricity outages have been scheduled daily, impacting the everyday lives of Gazas population. GEDCO estimates the number of people impacted during hourly electricity cuts at: (i) 605,400 (40.4 percent of people) at 167 MW and 444,600 (29.6 percent of people) at 197 MW.

The shortage of electricity is further exacerbated by the deteriorated conditions of the electricity networks in Gaza. Despite some progress being made during the last two year in repairing part of the damages in the electricity distribution networks , the networks themselves are laden with many problems including:

a) Overloaded and limited capacity of the medium voltage feeders from the main supply points (IEC, GPP and Egypt border) to the main load centers.

b) Inadequate capacity of the low voltage networks to meet existing loads including unsafe installations and very low reliability and voltage profiles.

c) High network losses reaching up to 30% of electricity supply which therefore worsens the level of electricity cuts.

These conditions have aggravated the already difficult living conditions of the population in Gaza. Electricity shortages and cuts are negatively impacting all social and economic aspects of daily life ranging from hospitals, clinics, and education to water, sanitation, agriculture, commercial business and the remaining functioning industries. Private back-up generators are extensively used during periods of electricity cuts. These generators in many cases are unsafe and environmentally polluting, in addition to not being available to all sectors of the population.

Furthermore, GEDCO has been suffering from operating in a very challenging environment affecting the companys capacity and operation. Closures severely impede the companys access to professional staff that can support capacity building within the company to improve its operation. A recent European Commission (EC) financed assessment of GEDCO against electricity utility standards, found GEDCO ineffective or in need of improvement. However, GEDCOs experienced technical staff do have the skills needed to design and undertake the physical implementation of the project.

Given the deteriorated conditions of the electricity networks in Gaza, the PEA is planning to increase network capacity to facilitate support of the above supply options as they become viable aswell as to improve network performance, efficiency, safety and utilization. This will therefore require major rehabilitation and expansion of the electricity networks in Gaza including investments in the medium- and low-voltage distribution systems and metering. To assist PEA achieve this objective, the proposed Gaza Electricity Network Rehabilitation Project aims to finance part of GEDCOs electricity investment needs and improve its technical, financial and institutional capacity.

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III. Project Development Objectives

The project development objective is to rehabilitate and expand the electricity networks in Gaza in order to improve their reliability and performance.

In addition, the Project will include a significant technical assistance component for capacity building of GEDCO to improve its financial, accounting and administrative management as well as utility operations.

IV. Project Description

Component Name

Network Rehabilitation and Expansion

Utility Capacity Building and Technical Assistance for PEA

V. Financing *(in USD Million)*

For Loans/Credits/Others	Amount
Borrower	0.00
Islamic Development Bank	8.00
Special Financing	8.00
Total	16.00

VI. Implementation

The proposed Project will be implemented by the existing Project Management Unit (PMU) at PEA, which is currently handling the implementation of other Bank and donor financed projects including the World Bank supported Electric Utility Management Project (EUMP). The Project Management Unit (PMU) operates under the umbrella of the PEA and is fully staffed with a director, procurement, financial management, accountant and other relevant staff. Key members of the PMU are experienced in implementing similar projects under the Banks procurement guidelines, policies and procedures. Therefore, the PMU will be responsible for handling all procurement and financial management issues related to the proposed Project.

GEDCO will be responsible, in coordination with and support from PEA, for the design and preparation of the technical specifications of the project components. GEDCO will also be responsible for the implementation of the activities financed by the project including the supervision of local contractors for the installation and civil works and consultants for the technical assistance component.

The PMU will also be responsible for coordination with GEDCO, the Bank, the Islamic Development Bank (IsDB) and government authorities on the supply of equipment and materials to GEDCO and contract execution. Additional staffing of the PMU and GEDCO will be necessary especially to support coordinating the execution and monitoring of the project activities in Gaza.

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VII. 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

VIII. Contact point

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