Report Number : ICRR0020707

1. Project Data

Project ID	Project Name	
P084461	GZ-Electric Utility Management	
Country	**Practice Area(Lead)**	**Additional Financing**
West Bank and Gaza	Energy & Extractives	P116854,P157675,P157675

L/C/TF Number(s)	Closing Date (Original)	Total Project Cost (USD)
TF-92336,TF-94587	30-Sep-2013	181,300,000.00
Bank Approval Date	**Closing Date (Actual)**	
15-May-2008	30-Sep-2016	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	14,500,000.00	14,500,000.00
Revised Commitment	14,500,000.00	14,500,000.00
Actual	14,500,000.00	14,500,000.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
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2. Project Objectives and Components

a. Objectives

Original Objective

The Project Development Objective (PDO) as stated in the Trust Fund Grant Agreement (Schedule 1, page 7) is:

"to reduce the fiscal burden of the power sector on the Palestinian Authority's (PA) budgetary resources through efficiency enhancement measures aimed at lowering deductions from clearance revenues* for arrears owed to the Israel Electric Corporation Limited (IEC)), including: (a) improved collection performance: (b) lower technical and non-technical losses: (c) reduction in payables to IEC on account of electricity purchases: (d) consolidation and increase in the number of electricity consumers: and (e) ensuring that the

Northern Electric Distribution Company (NEDCO) is fully operational."

Revised Objective

There was a Level One restructuring in September 2013, when 81% of the Bank Trust Fund had been disbursed. The revised objective is "to establish and strengthen key energy sector institutions to enhance collection performance of electricity bill payments, and restore power distribution systems in conflict-affected areas."' This restricted the project's objectives to those which could be achieved through Trust Fund financed activities alone.

The assessment of the project's outcome will be based on a split rating of objectives before and after restructuring.

**Clearance revenues refer to the arrangement through which indirect taxes were collected by Israel on behalf of PA and normally refunded via clearance procedures to PA as per the 1994 Oslo Accord. High levels of arrears (unpaid electricity bills) by PA led the Israeli government to proceed with monthly deductions (referred to as net lending from the electricity sector) from the clearance revenue in lieu of arrears owed by the PA.*

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

Yes

Did the Board approve the revised objectives/key associated outcome targets?

Yes

Date of Board Approval

04-Sep-2013

c. Will a split evaluation be undertaken?

Yes

d. Components

There were three components.

Supply and Installation of Power Supply Sub-stations. *(Appraisal estimate US$40.00 million. Actual cost at closure US$56.50 million).* Activities aimed at financing four new bulk 161 kilovolt (kV) power supply sub-stations in the northern, central and southern areas of the West Bank as part of the transmission system. Most of the connection points supplying the Palestinian load by Israel Electric Corporation Limited (IEC) were to be replaced by the new configured distribution system under the new 161 kV substations. This system was expected to allow most of the West Bank to be supplied at IEC's high voltage tariff, which was lower than IEC's flat tariff.

Development, Reconfiguration and Rehabilitation of Distribution Networks *(Appraisal estimate US$71.80 million. Actual cost at closure US$65.30 million).* This component aimed at financing the rehabilitation of distribution networks in West Bank and Gaza. Activities included: (i) development of the new power distribution system in the northern, central and southern areas of the West Bank; (ii) rehabilitation and extension of distribution networks in all the utilities in West Bank and Gaza; and, (iii) installation of prepaid meters and automatic meters reading systems (AMRs) in all the utilities.

Capacity Building for the Improvement of Electricity Services. *(Appraisal estimate US$13.00 million.*

Actual cost at closure US$17.60million). Activities included: (i) capacity building for all the electricity utilities in West Bank and Gaza, including technical assistance for procurement and training; (ii) providing technical assistance to the Palestinian Energy and Natural Resources Authority (PENRA) for promoting development and utilization of renewable energy resources and adopting energy efficiency measures; (iii) providing both short and long term engineering consultancy services for procurement and supervision of construction of the four new 161kV substations and the related connective 161 kV lines and distribution development; (iv) financing the operating costs of the Project Management Unit (PMU); and, (v) financing the start-up operating costs of the Palestinian Energy Transmission Company (PETL) and the Palestinian Energy Regulatory Commission (PERC).
At the Level One restructuring, the following changes were made to the scope of project activities: (i) the scope of component one activities was substantially reduced as these activities were not financed by the Trust Fund; (ii) component two activities associated with power sector investments were restricted to investments in the Jerusalem District Electricity Company (JEDCO); (iii) the supply of equipment and materials to Gaza was added; and (iv) the scope of capacity building and technical assistance activities was reduced.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project Cost. The estimated cost at appraisal (including baseline cost and costs associated with physical and price contingencies) was US$140.10 million. The actual cost at closure was US$139.50 million. The costs of component one and three activities were 41% and 36% respectively higher than expected at appraisal and those of component two activities were 91% of the appraisal estimate. The increase in cost of components one and three activities was covered through reallocation of funding between project components.
Project Financing. The project was financed by a Bank Group Trust Fund for Gaza and West Bank together with substantial cofinancing. In July 2009, Additional Financing of US$2.50 million was approved for electricity materials and equipment to the Gaza Electricity Distribution Company (GEDCO) following the 2009 Gaza War. The total Trust Fund financing of US$14. 50 million was fully disbursed at closure.
Planned co financing of US$121.80 million included US$70.30 million from the European Investment Bank (EIB), which financed the first component (power supply substations), US$20.00 million from the European Commission (EC), US$10.00 from the French Agency for Development (AFD), and US$21.50 million from the Government of Norway. There was also a contribution from the Government of Italy (appraisal estimate not available). Total amount disbursed from other donors at closure was US$120.90 million including US$55.90 from the EIB, US$13.40 million from the EC, US$10.00 million from AFD, US$24.10 from the Government of Norway and US$17.50 million from the Government of Italy.
Borrower Contribution. The appraisal estimate was US$6.30 million. Actual contribution was US$4.10 million, about 60% of the appraisal estimate.
Dates The grant closing date was extended twice. The first extension, for 27 months from September 30, 2013 to December 31, 2015 was to allow full disbursement of the funds allocated to PETL.
The second, on December 22 2015, was for nine months until September, 2016 to enable the use of a remaining balance in the designated account. The project closed three years behind schedule on September 30, 2016.

3. Relevance of Objectives & Design

a. Relevance of Objectives

Original Objectives
Prior to the project, West Bank and Gaza imported energy in bulk, mainly from Israel. These purchases led to the accumulation of high levels of arrears, which Israel partially cleared through monthly deductions, amounting to US$240 million in 2007 (about 15% of PA's net revenue). What could not be cleared in this way accumulated as outstanding debt owed by PA. The objective of reducing the long standing net lending in the power sector, and thereby the fiscal burden it represented, was thus of critical importance for West Bank and Gaza.
The original objectives continue to be relevant both to the PA and Bank strategies. The *Letter of Sector Policy for the Power Sector* issued by the PA in 1997, defined the strategic medium term orientation for the electricity sector, laid out an agenda of institutional reforms and initiated a first physical investment program. The PDOs are also relevant to the *Palestinian Renewable Energy Strategy* issued by PENRA for the 2012-2020 period and the *2017-2022 Palestinian Energy Sector Strategy* that was under review by the Cabinet at project closure. At appraisal, the PDOs were pertinent to the World Bank's *West Bank and Gaza Energy Sector Review* issued in 2007, which identified priorities for Bank intervention, The Bank's Assistance Strategy for the West Bank and Gaza for the 2015-2016 period specifically mentions the issue of non-payments to IEC and net lending from the power sector.
Revised Objective
The revised objective is a subset of the original PDO, focusing on activities and outcomes financed by the Trust Fund Grant. The high relevance of the original objectives, therefore, applies also to the revised statement.

Rating	Revised Rating
High	High

b. Relevance of Design

Original Design.
The statement of objectives was clear and there was a logical causal chain between project activities and expected outputs and outcomes. The outputs of component one (installing power supply sub-stations in the northern, central and southern areas of the West Bank) in conjunction with the outputs of component two (rehabilitation of the distribution networks in all the utilities and installing prepaid meters and automatic meters reading systems in the project intervened areas) could have been expected to (i) contribute to improved collection performance,(ii) lower technical and commercial losses, (iii) reduce payables to the Israel Electric Corporation (IEC) and (iv) increase access to electricity for consumers in West Bank and Gaza. However, design did not take account of a number of factors which would make the project’s key intended outcome of lowering the deductions from clearance revenues unattainable. These included political factors affecting GEDCO, the role of municipalities and village councils in the West Bank, issues associated with supply of

electricity to refugee camps in the West Bank, and the consequences of rapidly increasing demand for electricity and IEC-imposed tariff increases (see Section 4 below).

Revised Design.

The revised statement of objectives was simpler and less ambitious. It corresponded to what could be achieved through the activities financed by the Trust Fund Grant. Outputs associated with establishing and institutional strengthening of key energy institutions could be expected to enhance the collection performance of electricity bill payments. Outcomes associated with rehabilitation of distribution networks could likely enable the restoration of power distribution systems in selected conflict-related areas of West Bank and Gaza.

Rating	Revised Rating
Modest	Substantial

4. Achievement of Objectives (Efficacy)

Objective 1

Objective

To reduce the fiscal burden of the power sector on the Palestinian Authority's (PAs) budgetary resources, through efficiency enhancement measures aimed at lowering deductions from clearance revenue for arrears owed to the Israel Electric Corporation Limited (IEC).

Rationale

Outputs.

- Three substations were completed as compared to the target of four. The fourth sub-station (in Ramallah) was 15% complete at closure and was planned to be commissioned in July 2018. The delay arose from the need to obtain permits from the Israeli Authorities for infrastructure works in Area C (areas under full Israeli civil and security control) and from further operational delays in Area C.
- The first stage of the development of the Northern and Southern distribution systems was completed with funding from the Government of Norway as targeted. The second stage, financed by the Government of Italy, was ongoing at closure and expected to be completed by September 2018 (ICR, page 31). The new Central Distribution System in the West Bank was developed as targeted (ICR, page 31). The distribution utilities in the West Bank were rehabilitated with funding from the European Commission (EC) and the Government of Norway. (ICR, page 31-32).
- 17 employees were trained for activities associated with substation operations and maintenance. This exceeded the revised target of nine. (ICR, Datasheet, Intermediate Indicator Number Nine).

In addition to the outputs described above, the following activities were fully financed by the Trust Fund Grant.

- 214 km of Medium Voltage (MW) cables for the Jerusalem District Electricity Company (JEDCO) as targeted.

- 51 distribution transformers were delivered to the Gaza Electricity Distribution Company as per the revised target.
- The Geographic Information System (GIS) was installed for Hebron Electric Power Company as targeted.
- The Palestine Energy Transmission Company (PETL) was established as per the revised target. 17 PETL employees were trained as compared to the target of Nine.
- An assessment study on the Northern Electricity Distribution Company (NEDCO) was completed as targeted.
- The Jerusalem District Electric Company's (JEDCO"s) Information Technology (IT) infrastructure was upgraded as targeted.
- An awareness campaign on the Palestine Energy Regulatory Commission (PERC) was launched as targeted.
- A study on potential for renewable energy development in West Bank and Gaza, *study on the potential for renewable energy development in the West Bank and Gaza* .was completed as targeted.
- A Geographic Information System (GIS) was installed for the Hebron Electric Distribution Company (HEPCO) as per the revised target.
- A pilot municipal street-lighting program was completed at project closure.
- The Northern Electricity Distribution Company (NEDCO) was established as targeted.

Outcomes.

- The weighted average collection performance of the DISCOs improved from 64% at the baseline to 85% at project closure. This exceeded the original target of 75%.
- Accounts payable to the Israel Electric Company (IEC) declined from 20.3% to 8.5% at project closure. This was short of the target of 1.9%.
- The weighted average of technical and non-technical losses of the Distribution Companies (DISCOs) did not decrease as expected but increased from 20% at the baseline to 23% at project closure.
- The implementation of a significant prepaid meter deployment program (financed by other external partners) gave over 40% of West Bank consumers access to a prepaid meter by 2013.
- The West Bank’s DISCOs expanded their customer base from 278,725 in 2007 to 420,748 at closure, exceeding the target of 332,289.
- Accounts payable of West Bank’s DISCOs to IEC improved from 20.3 months in 2008 to 8.5 months in 2015. Although this is a noteworthy achievement, the target of 1.9 months was not achieved.
- Technical and non-technical losses rose from 20% to 23% rather than falling to 14% as intended. However, this was compensated by the increase from 41% to 75% in the share of electricity received by the West Bank’s DISCOs paid for by end-consumers.
- The key objective of lowering deductions from clearance revenue for arrears owed to IEC was not achieved. The intended decrease in net lending on account of power sector arrears from US$240 million at the baseline to US$40.00 million did not take place. Rather than decrease, arrears increased to US$264 million. This was for five main reasons. First, GEDCO, which represented 55% of the PA's net

lending to IEC, has not paid the Israeli company since 2003. Rather, its unpaid bills have added to the arrears. Political factors – notably the take-over of Gaza by *Hamas* in June 2007 while its rival Fatah stayed in control of the West Bank -- signify that the PA has no control over net lending related to the power sector in Gaza. Second, in the West Bank, the project focused only on the four Distribution Companies (DISCOs) that together accounted for about 75% of IEC sales to the West Bank, and about two-thirds of net lending. The municipalities and village councils, which accounted for the remainder, were not systematically covered by the project's investments. Third, some 775,000 people are known to be living in 19 refugee camps in the West Bank (the actual total may well be more). Charging for electricity supplied to refugee camps is a sensitive political issue, and lack of payment contributes to the debt and settlement issues with IEC. Fourth, in the absence of a power purchase agreement, IEC exercise its effective monopoly power as a supplier of 95% of the electricity consumed in the West Bank. The 33% increase in IEC tariffs between 2010 and 2014 is believed to have contributed to higher non-technical losses through theft. Fifth, the 7.5% annual increase in electricity sales in the West Bank was faster than anticipated. Combined with the tariff increase, this alone would have rendered the project's financial targets unattainable.

Rating
Modest

Objective 1 Revision 1

Revised Objective
" To establish and strengthen key energy sector institutions to enhance collection performance of electricity bill payments".

Revised Rationale
Outcomes.

- The Palestinian Energy Regulatory Commission (PERC) adopted a revised unified tariff for West Bank and Gaza under a rate of return regulation (cost plus) approach as per the revised target (ICR, Datasheet, Key Outcome Indicator Number Three). This rate was applied to all electricity distribution companies and municipalities that distribute electricity (ICR, page 20).
- As noted under the discussion of the original objective, the target related to collection performance was exceeded. Accounts payable to IEC decreased but were still above target. Combined technical and non-technical losses rose rather than fell, but this was compensated by the increase in the percentage of electricity received by the West Bank DISCOs that was paid for by the end users.

Revised Rating
Substantial

Objective 1 Revision 2

Revised Objective

To restore power distribution systems in selected conflict-affected areas of the Recipient.

Revised Rationale

Outputs.

In addition to the outputs described above, which were also relevant to this objective, 51 distribution transformers were restored in Gaza as per the revised target.

Outcomes.

According to the ICR, the number of direct project beneficiaries rose from 381,910 in 2008 to 642,540 at closure, about 10% short of the target of 706,800. Of these 221,792 (baseline 154,163) were in Gaza.

Revised Rating

Substantial

5. Efficiency

Economic Analysis. An economic analysis was conducted both at appraisal and at closure for activities associated with construction of sub-stations, and development or rehabilitation of distribution systems, and installation of pre-paid meters in the Northern, Central and Southern area of the West Bank. These activities accounted for 80% of the project cost at appraisal and 87% of the actual project cost at closure. Ex ante, the economic benefits of the project were assumed to come from: a reduction of net lending; improvements in energy security as a result of increased supply capacity; lower tariffs resulting from application of IEC's high voltage tariff; and reduction in technical losses from the investments associated with pre-paid meters. The ex-ante net present value (NPV) at a 12% discount rate was US$83.8 million and the economic internal rate of return (EIRR) was 23%. At closure, the two main economic benefit sources were, first, an expected tariff reduction of 10% for IEC electricity sales (following the energization of the high-voltage substations) that would be reflected in a power purchase agreement between IEC and PETL expected to be signed in June 2017; and, second, an anticipated 12.5% reduction of technical losses following the rehabilitation of the distribution systems. The ex post NPV was US$98.7 million and the EIRR was 29%. The NPV and EIRR at closure are not really comparable with those at appraisal, since the anticipated benefits are different.

Operational and Administrative Issues. There was a four-year delay associated with commencement of project activities due to the need to securing financing in the wake of the global financial crisis, delays in reaching agreement between the PA, the EIB and IEC on the terms of the contract; and the time needed to secure special security insurance for coverage of damages caused by possible hostilities in the conflict-affected Palestinian Territories. At closure, three of the four substations were complete, but the Ramallah substation was only 15% complete. However, all Bank-managed, Trust Fund-financed activities had been completed, and there were no significant cost overruns.

Efficiency Rating
Substantial

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

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal	✓	23.00	80.00 ☐Not Applicable
ICR Estimate	✓	29.00	87.00 ☐Not Applicable

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

6. Outcome

Relevance of the **original objectives** to both country and Bank strategy is rated high. Design, however, of the original project was unrealistic in relation to the PDO and is rated modest. Although some of the secondary goals were attained, the key anticipated outcome of lowering the deductions from clearance revenues in order to reduce the power sector's fiscal burden was not achieved. Efficacy is, therefore, rated modest. Efficiency is rated substantial given the high returns to infrastructure investments, the completion by closure of most activities, and the absence of delays or cost overruns on Trust Fund-financed activities. Shortcomings are considered to be significant in view of the lack of design realism and the consequent modest achievement of objectives. Outcome is rated moderately unsatisfactory.
The **revised objectives** are essentially a subset of the original ones and their relevance is also rated high. Design after restructuring was much simpler and logically geared to what the Trust Fund-financed activities alone could achieve, All revised targets related to establishing and strengthening key energy sector institutions to enhance collection performance of electricity bill payments, and to the restoration of power distribution systems in selected conflict-affected areas, were achieved. With substantial efficiency, outcome is assessed as satisfactory.
Weighting these results by the 81% of Trust Fund financing disbursed at restructuring, leads to an overall outcome assessment of Moderately Unsatisfactory.

a. **Outcome Rating**
Moderately Unsatisfactory

7. Rationale for Risk to Development Outcome Rating

The establishment of institutions such as the Palestine Energy Regulatory Commission (PERC) and the Palestine Energy Transmission Company (PETL), and the anticipated signing of thepower purchase agreement

(PPA) and consequent tariff reduction can be expected, *ceteris paribus*, to reinforce future efforts to reduce net lending. The PPA has been enshrined in the Agreement on the Principles of the Palestine Debt signed by Israel and the Palestine Authority on September 12, 2016. These factors mitigate the risks to development outcome in the West Bank. Risks in Gaza, however, are high given that the Gaza Electric Distribution Company (GEDCO) does not pay IEC even indirectly through PENRA. All IEC sales to Gaza are, therefore, paid either through net lending (89% on average or around US$117.00 million since 2007) or debt settlement (11%). There is also a high political risk given that leadership rivalry between Fatah and Hamas in Gaza to date remains unresolved.

a. Risk to Development Outcome Rating

High

8. Assessment of Bank Performance

a. Quality-at-Entry

The project was prepared based on the lessons from a prior Bank-financed power sector operation for West Bank and Gaza (Electric Sector Investment Management Project). In view of the problems that were encountered with coordination, reporting and monitoring due to the lack of a central unit responsible for project management, this project envisioned the establishment of a Project Management Unit (PMU) under the Palestinian Energy and Natural Resources Authority (PEA). Appropriate arrangements were made at appraisal for fiduciary and safeguards compliance (discussed in section 11 below).

However, there were significant shortcomings in quality at entry. Weaknesses included unrealistic assumptions, ambitious targets and insufficient accounting for exogenous factors (see Section 3b above).

Given that the Trust Fund financed activities represented less than 10% of the original project cost, it is not clear what measures were envisaged at preparation to ensure coordination between the different external agencies involved in the project, or what kind of leadership role the Bank could be expected to play.

The preparation team underestimated the risks associated with delays in securing co-financing and in launching the activities funded by other partners. This contributed to delays in the initial years of implementation.

The operating environment in the Palestinian Territories is complex and difficult. Major electricity sector works and reforms are subject to Israeli control and good will. Preparation might have taken more account of these issues which led to implementation delays, especially in areas under full Israeli civil and security control, which represent 61% of the West Bank. There were also shortcomings in M&E design (discussed in section 10 below).

Quality-at-Entry Rating

Moderately Unsatisfactory

b. Quality of supervision

Supervision missions took place, on average, twice a year. The team was proactive in processing additional financing that enabled the delivery of key equipment to Gaza in order to restore power supply following the

war of 2009. It was also thorough in addressing safeguards issues, dealing with actual or potential non-compliance in a timely manner. It continued to monitor safeguard compliance related to the high-voltage substations even after restructuring when these activities no longer formed part of the project. The Bank team was also proactive in furthering the understanding of the complex issue of net lending, in order to maintain a constructive dialogue with Palestinian energy sector institutions. Before the preparation of the Level One restructuring, it initiated the production of the *Net Lending Report,* finalized in November 2014, which was subsequently acknowledged by all stakeholders as a valuable reference document.
The Level One restructuring was appropriate, given the fact that Bank-managed financing accounted for less than 10% of the cost of the original project, and that Bank leverage was thereby limited. However, the restructuring took place at a late stage in implementation, while the difficulties leading to the need for it had become obvious considerably earlier. According to Section 2.2 of the ICR, most of the delays associated with non-Trust Fund-financed activities had materialized by 2010. A mid-term review was carried out at the end of 2011, but the ICR reports that no decision was taken during the review to restructure the project. This decision was not made until a year later, in December 2012, and it took a further nine months for the restructuring to become effective in September, 2013, only a few days before the original closing date. By that time, over 80% of the Trust Fund grant had been disbursed, and the impact of the restructuring on the overall outcome of the project was therefore limited. This delay – the reasons for which are not fully clear from the ICR – is considered a significant shortcoming.

Quality of Supervision Rating
Moderately Unsatisfactory

Overall Bank Performance Rating
Moderately Unsatisfactory

9. Assessment of Borrower Performance

a. Government Performance
Government commitment to the PDO remained strong through the implementation phase as demonstrated by the establishment of the Palestine Energy Regulatory Commission (PERC) in 2010 and of the Palestine Energy Transmission Company (PETL) in 2013 to take over the substations and connection points following the power purchase agreement with IEC. Based on technical assistance support from the project on renewable energy, the Palestinian Energy And Natural Resources Authority (PENRA) issued the General Electricity Law and the Renewable Energy and Energy Efficiency Law in 2012, together with secondary legislation and regulations for renewable energy.

Government Performance Rating
Moderately Satisfactory

b. Implementing Agency Performance
The Project Management Unit (PMU), established within the Palestinian Energy and Natural Resources Authority (PEA), and located in the premises of the Palestinian Energy and Natural Resources Authority

(PENRA), implemented the project. The PMU was fully staffed and its key members were familiar with the Bank's procurement guidelines, policies and procedures, having been involved in earlier projects. However, the PMU could have been more proactive in coordinating with the DISCOs, particularly in gathering key information on important project outcome indicators. There were frequent delays in responding to Bank requests for data related to the financial performance of the DISCOs, which were included among the agreed M&E indicators..

Implementing Agency Performance Rating

Moderately Satisfactory

Overall Borrower Performance Rating

Moderately Satisfactory

10. M&E Design, Implementation, & Utilization

a. M&E Design

The original design was less than robust, with only one key outcome indicator - reduction in net lending on account of power sector arrears to the Israel Electric Corporation Limited (IEC). The usefulness of this indicator was reduced by three factors. First, activities could only impact net lending in the West Bank, given that the Gaza Electricity Supply Company (GEDCO) was no longer paying IEC since 2003. Second, the M&E design implicitly assumed that net lending reduction was only dependent on improved financial performance of the Distribution Companies (DISCOs), an unrealistic assumption given that about a third of the net lending was due to the 175 municipalities and village councils that transacted bilaterally with IEC. Third, the causes of net lending are widespread and complex and include absence of a billing system, technical losses, electricity theft, non-payments by refugee camps and by local administrations, increased tariffs, local interests of the municipalities and village councils, and high interest rates on non-payments. Having only one outcome indicator is generally not good practice in designing a sound M&E framework, and especially when outcome depends on a variety of contributory factors. Overall responsibility for managing M&E was given to the PMU.

b. M&E Implementation

Data for monitoring performance was reported bi-annually by the Project Management Unit (PMU). Financial performance data were already being collected regularly by the Palestine Authority (PA) and DISCOs. As noted above, however ,there were frequent delays in the transmission of financial information to the Bank team by the PMU.

At the Level One restructuring, six key outcome indicators were revised and were appropriate for monitoring performance in accordance with the modified development objectives. New intermediate indicators were also added, while the net lending indicator and the individual DISCO's financial performance indicators (collection rates and accounts payable to IEC) were dropped. The revised M&E system was simpler and easier to operate.

c. M&E Utilization

The ICR provides little information on M&E utilization.

M&E Quality Rating

Modest

11. Other Issues

a. Safeguards

The project was classified as a Category B for environmental assessment purposes. Other than Environmental Assessment (OP/BP 4.01), the Involuntary Resettlement safeguard policy (OP/BP 4.12) was triggered.

The PAD (page 14) notes that potential adverse environmental impacts were identified at appraisal, due mainly to the construction of four new bulk power supply substations. An Environmental Assessment (EA) was conducted and an Environmental and Social Management Plans (ESMP) was prepared and publicly disclosed (PAD, page 14). Since the construction works were expected to involve land acquisition, a Resettlement Policy Framework (RPF) was also prepared and publicly disclosed (PAD, page 15). The ICR (page 1) reports that an Abbreviated Resettlement Action Plan (ARAP) was prepared by PENRA for each sub-station in accordance with Bank guidelines.

The ICR (page 12) notes that PENRA was non-compliant with the Bank's safeguard policies for three of the four sub-stations during implementation as construction activities had been initiated prior to obtaining the Bank's clearance. The ICR reports, however, that these issues had been rectified by closure, although it does not state whether or not there was compliance with OP 4.01.

Although project affected people were identified prior to the commencement of construction activities, the compensation process had not been completed by project closure (ICR, page 12) The Task Team Leader subsequently informed IEG that the process was subsequently completed. The ICR does not state whether the compensation and resettlement processes were in conformity with the requirements of OP 4.12.

b. Fiduciary Compliance

Financial Management. The Project Management Unit (PMU) was responsible for addressing financial management issues (PAD, page 11). An assessment of the implementing agency conducted at appraisal concluded that the financial management risk was substantial, due to the lack of a properly functioning external audit institution. Various risk mitigation measures were incorporated at appraisal, including hiring of independent external auditors (PAD, page 32). The ICR (page 12) notes that the financial management of the implementing agency was deemed to be satisfactory during project implementation. Annual audit reports were submitted in a timely fashion and no significant issues were identified.

Procurement Management. An assessment made at appraisal concluded that the staff of the Project Management Unit had adequate experience in implementing and supervising externally funded projects. The ICR (page 12) reports that procurement management was deemed to be satisfactory and that, other than delays, there were no procurement issues during implementation.

c. Unintended impacts (Positive or Negative)

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d. Other

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12. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Satisfactory	Moderately Unsatisfactory	Efficacy prior to restructuring, when over 80% of Grant funds were disbursed, is rated modest.
Risk to Development Outcome	Modest	High	---
Bank Performance	Moderately Satisfactory	Moderately Unsatisfactory	There were significant shortcomings in both Quality at Entry and Quality of Supervision (see Section 8 above).
Borrower Performance	Moderately Satisfactory	Moderately Satisfactory	---
Quality of ICR		Substantial	---

Note
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

The ICR draws the following main lessons from implementing this project, with some adaptation of language:

- **Unrealistic objectives and outcome targets are unlikely to be fulfilled.** Realism is especially important in fragile and conflict contexts such as in the Palestinian Territories**.** The narrative in the PAD did not reflect political and administrative complexities fully enough.
- **The presence of necessary expertise on the ground or close by can facilitate implementation.** In the case of this project, the Bank's Energy Global Practice did not have a decentralized staff within close reach to West Bank and Gaza. Some issues that arose during implementation could have been addressed more expeditiously with expertise on the ground.
- **Regular coordination between all parties involved in a project can reduce delays**. In this project, implementation delays particularly in the Ramallah region occurred due to lengthy processes in land expropriation and design modifications during the construction phase partly due to lack of adequate coordination with the Israeli authorities.

IEG adds the following lesson:

- **Project outcomes can be improved when a project is restructured as soon as significant design issues become apparent**. Here, a necessary Level One restructuring was delayed for over three years after problems had arisen, and finally took place when it was too late to influence overall project outcome.

14. Assessment Recommended?

No

15. Comments on Quality of ICR

The ICR provides a detailed overview of the project and is, for the most part, well-written. It is candid, particularly when discussing the issues that arose during implementation due to delays in the release of funding from co-financiers. The quality of evidence and analysis is aligned to the messages and lessons offered.
There was one shortcoming. Given the importance of the net lending issue, an annex summarizing of the results of the Bank-financed study on net lending would have been useful.

a. Quality of ICR Rating
Substantial