

Document of  
The World Bank

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Report No: PAD1143

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT PAPER

ON A

PROPOSED ADDITIONAL GRANT

FROM THE TRUST FUND FOR GAZA AND WEST BANK

IN THE AMOUNT OF US\$15 MILLION

TO THE

PALESTINE LIBERATION ORGANIZATION

(FOR THE BENEFIT OF PALESTINIAN AUTHORITY)

AND RESTRUCTURING

FOR THE

GAZA ELECTRICITY NETWORK REHABILITATION PROJECT

October 17, 2014

Energy and Extractives Global Practice  
Middle East and North Africa Region

This document is being made publicly available prior to Board consideration. This does not imply a presumed outcome. This document may be updated following Board consideration and the updated document will be made publicly available in accordance with the Bank's policy on Access to Information.

## CURRENCY EQUIVALENTS

(Exchange Rate Effective August 31, 2014)

Currency Unit = NIS (New Israeli Sheqalim)  
NIS 1 = US\$ 0.28  
US\$ 1 = NIS 3.58

FISCAL YEAR  
January 1 – December 31

## ABBREVIATIONS AND ACRONYMS

AF	Additional Financing
DA	Designated Account
DNA	Disaster and Needs Assessment
EC	European Commission
EMP	Environmental Management Plan
ESIA	Environmental and Social Impact Assessment
FM	Financial Management
FM	Financial Management
GEDCO	Gaza Electricity Distribution Company
GENRP	Gaza Electricity Network Rehabilitation Project
GPP	Gaza Power Plant
GRM	Grievance Redress Mechanism
IBRD	International Bank for Reconstruction and Development
ICB	International Competitive Bidding
IDA	International Development Association
IDP	Internally Displaced People
IFR	Interim Financial Report
IsDB	Islamic Development Bank
ISN	Interim Strategy Note
LV	Low Voltage
MENA	Middle East and North Africa
MOF	Ministry of Finance
MV	Medium Voltage
NCB	National Competitive Bidding
NERRPG	The National Early Recovery and Reconstruction Plan for Gaza
PA	Palestinian Authority
PEA	Palestinian Energy Authority
PENRA	Palestinian Energy and Natural Resources Agency
PLO	Palestine Liberation Organization
PMU	Project Management Unit
PP	Project Paper
QCBS	Quality and Cost Based Selection
TFGWB	Trust Fund for Gaza and the West Bank
UXO	Unexploded Ordnances
WB&G	West Bank and Gaza

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Task Team Leader:	Simon Stolp



**WEST BANK AND GAZA**  
**ADDITIONAL FINANCING FOR THE GAZA ELECTRICITY NETWORK**  
**REHABILITATION PROJECT**

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## Additional Financing Data Sheet

### ADDITIONAL FINANCING DATA SHEET

*West Bank and Gaza*

*Gaza Emergency Response for Electricity Network Rehabilitation Project (AF) ( P152411 )*

*Energy and Extractives Global Practice - GEEDR*

Basic Information – Parent									
Parent Project ID:	P116199	Original EA Category:	B - Partial Assessment						
Current Closing Date:	31-Dec-2015								
Basic Information – Additional Financing (AF)									
Project ID:	P152411	Additional Financing Type (from AUS):	Scale Up						
Regional Vice President:	Inger Andersen	Proposed EA Category:	B - Partial Assessment						
Country Director:	Steen Lau Jorgensen	Expected Effectiveness Date:	13-Nov-2014						
Senior Global Practice Director:	Anita Marangoly George	Expected Closing Date:	30-Jun-2017						
Practice Manager/Manager:	Charles Joseph Cormier	Report No:	PAD1143						
Team Leader:	Simon J. Stolp								
Borrower									
Organization Name	Contact	Title	Telephone	Email					
Palestine Liberation Organization	H.E. Shukry Bishara	Minister of Finance	97097222986192						
Project Financing Data–Parent ( GZ-Gaza Electricity Network Rehabilitation Project-P116199 )									
Key Dates									
Project	Ln/Cr/TF	Status	Approval Date	Signing Date	Effectiveness Date	Original Closing Date	Revised Closing Date		
P116199	TF-11639	Effective	23-Mar-2012	23-Mar-2012	18-Jun-2012	31-Dec-2015	30-June-2017		
Disbursements									
Project	Ln/Cr/TF	Status	Currency	Original	Revised	Cancelled	Disbursed	Undisbursed	% Disbursed
P116199	TF-11639	Effective	USD	8.00	8.00	0.00	2.81	5.19	35.09
Project Financing Data –Additional Financing Gaza Emergency Response for Electricity Network Rehabilitation (AF) ( P152411 )									
<input type="checkbox"/>	Loan	<input checked="" type="checkbox"/>	Grant	<input type="checkbox"/>	IDA Grant				
<input type="checkbox"/>	Credit	<input type="checkbox"/>	Guarantee	<input type="checkbox"/>	Other				
Total Project Cost:			15.00		Total Bank Financing:			15.00	

Financing Gap:	0.00				
<b>Financing Source – Additional Financing (AF)</b>				<b>Amount</b>	
Borrower				0.00	
Special Financing				15.00	
Total				15.00	
<b>Policy Waivers</b>					
Does the project depart from the CAS in content or in other significant respects?				No	
Explanation					
Does the project require any policy waiver(s)?				No	
Explanation					
<b>Team Composition</b>					
<b>Bank Staff</b>					
<b>Name</b>	<b>Title</b>	<b>Specialization</b>	<b>Unit</b>		
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Simon J. Stolp	Senior Energy Specialist, Mining	Task Team Leader	GEEDR		
Reem Muhsin Yusuf	Consultant	Energy Consultant	GEEDR		
<b>Locations</b>					
<b>Country</b>	<b>First Administrative Division</b>	<b>Location</b>	<b>Planned</b>	<b>Actual</b>	<b>Comments</b>
West Bank and Gaza	Gaza	Gaza	X	X	



Institutional Data				
<b>Parent ( GZ-Gaza Electricity Network Rehabilitation Project-P116199 )</b>				
<b>Practice Area / Cross Cutting Solution Area</b>				
Energy & Extractives				
<b>Cross Cutting Areas</b>				
[ ] Climate Change				
[ ] Fragile, Conflict & Violence				
[ ] Gender				
[ ] Jobs				
[ ] Public Private Partnership				
<b>Sectors / Climate Change</b>				
Sector (Maximum 5 and total % must equal 100)				
Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Energy and mining	Transmission and Distribution of Electricity	68		
Information and communications	Information technology	25		
Public Administration, Law, and Justice	Public administration-Energy and mining	7		
<b>Total</b>		<b>100</b>		
<b>Themes</b>				
Theme (Maximum 5 and total % must equal 100)				
Major theme	Theme	%		
Financial and private sector development	Infrastructure services for private sector development	50		
Urban development	City-wide Infrastructure and Service Delivery	50		
Total		100		
<b>Additional Financing Gaza Emergency Response for Electricity Network Rehabilitation (AF) ( P152411 )</b>				
<b>Practice Area / Cross Cutting Solution Area</b>				
Energy & Extractives				
<b>Cross Cutting Areas</b>				
[ ] Climate Change				
[X] Fragile, Conflict & Violence				
[ ] Gender				
[ ] Jobs				
[ ] Public Private Partnership				

<b>Sectors / Climate Change</b>				
Sector (Maximum 5 and total % must equal 100)				
Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Energy and mining	Transmission and Distribution of Electricity	100		
<b>Total</b>		<b>100</b>		
<input checked="" type="checkbox"/> I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.				
<b>Themes</b>				
Theme (Maximum 5 and total % must equal 100)				
Major theme	Theme	%		
Financial and private sector development	Infrastructure services for private sector development	50		
Urban development	City-wide Infrastructure and Service Delivery	50		
<b>Total</b>		<b>100</b>		

## I. INTRODUCTION

1. This Project Paper seeks the approval of the Executive Directors to provide an Additional Financing (AF) of US\$15 million, in the form of a World Bank Special Financing Grant to the Palestine Liberation Organization (PLO), and to undertake restructuring, for the Gaza Electricity Network Rehabilitation Project (GENRP - P116199).

2. The proposed AF was prepared according to OP10.00 paragraph 12 “Projects in Situations of Urgent Need of Assistance or Capacity Constraints”. The proposed AF would help finance the cost of scaling-up and restructuring of project activities to address urgent and significant needs. Specifically, it would finance reconstruction and rehabilitation of electricity network infrastructure that has been extensively damaged as a result of hostilities in Gaza during the period of July 5 to August 26, 2014. The AF is requested by the Palestinian Energy and Natural Resources Authority (PENRA) in association with the Gaza Electricity Distribution Company (GEDCO).

3. The AF will finance supply and installation of electricity distribution infrastructure, and associated implementation costs, in order to (i) reconstruct damaged electricity infrastructure and restore basic electricity services; (ii) strengthen the existing network and improve supply in areas where population movement has increased load; (iii) re-establish and improve revenue collections for electricity; and (iv) restore and enhance the capacity of PENRA and GEDCO to deliver electricity services.

4. Overall damage to the electricity network is assessed to be in the order of US\$42.5 million, excluding damage to Gaza Power Plant and other sources of local electricity generation. The proposed AF will be able to finance around 35 percent of the required reconstruction needs for the distribution network. The Palestinian Authority (PA) is in discussion with other donors regarding the further funding that will be required to address the damage to the sector. The overall total financing required to provide full electricity supply to Gaza, including repair and addition of generation capacity, is estimated by the PA to be in the order of US\$180 million.

5. The proposed changes for the purposes of the AF are:

- (i) A Level I restructuring given that the Project Development Objective (PDO) will be changed to reflect a focus on restoration of basic electricity services;
- (ii) restructuring of Component 1 (Electricity Network Reconstruction, Rehabilitation, and Expansion) to include additional reconstruction and rehabilitation activities, and to provide urgently needed goods and materials for emergency repairs;
- (iii) restructuring of Component 2 (GEDCO Capacity Building and Technical Assistance to the Palestinian Energy Authority (PEA) and the Project Management Unit (PMU) to include a subcomponent for Project Management Unit (PMU) operating costs, vehicles and office furniture; and to provide tools and equipment to allow GEDCO to undertake urgent repairs and maintenance;

- (iv) revision of procurement arrangements in line with OP10.00 paragraph 12 to allow for simplified procurement procedures for the additional financing component;
- (v) an 18-month extension of the closing date from December 31, 2015 to June 30, 2017.

6. Activities under the original Project will also be modified to better address immediate reconstruction needs. Procurement of a financial management information system and mobile billing computers (PCs) will be cancelled, and funds re-directed to the purchase of 25,000 additional pre-paid meters and control hardware, to help re-establish revenue flows.

7. The direct beneficiaries from the proposed AF would be: (i) approximately 190,000 people, 97 water pumping stations, nine hospitals/clinics and 950 commercial consumers that are currently not connected to electricity supply and would be re-connected; (ii) around 1.8 million people that are currently receiving only six hours of electricity per day in areas where distribution infrastructure is intact, and for whom the reliability of electricity supply would be improved; (iii) other basic humanitarian services providers that are reliant upon electricity supply including further hospitals, water supply and wastewater treatment plants which would receive improved service; and (iv) GEDCO which has lost all goods and materials required to repair and maintain the electricity system due to the destruction of the GEDCO warehouse.

8. GENRP is financed by a US\$8 million grant from the Trust Fund for Gaza and the West Bank (TFGWB) and parallel financing from the Islamic Development Bank (IsDB) also in the amount of US\$8 million. The additional financing of US\$15 million will be financed through a grant from the TFGWB.

## **II. BACKGROUND AND RATIONALE FOR ADDITIONAL FINANCING**

### **Country Context**

9. The recent armed conflict in Gaza lasted from July 8 through August 26, 2014, with devastating impacts on both the population and infrastructure. UNOCHA estimates that 2,131 people died; close to 11,000 people were wounded; and about 0.5 million residents, equivalent to around a third of Gaza's total population, have been displaced at the height of the conflict.

10. Already prior to the hostilities, unemployment in Gaza had jumped to 45 percent (June 2014), with youth unemployment close to 70 percent. While there are no recent poverty estimates, it is believed that close to half of Gaza's population lives in poverty. Some 70 percent of Gaza's population had already been aid dependent prior to the recent conflict. The economic impact of the conflict has not been fully quantified yet, but is doubtless severe. The loss in national GDP compared to the pre-conflict forecast is estimated at more than US\$0.65 billion. Economic activity in Gaza all but stopped for almost two months. The World Bank and International Monetary Fund (IMF) are forecasting that the Palestinian economy will shrink by almost four percent in real terms, with growth projected at -15 percent for Gaza and 0.5 percent for the West Bank.

11. The conflict resulted in massive destruction of infrastructure. As a result, needs for immediate relief and early recovery assistance are vast. The PA, in close collaboration with the international community, has provided immediate humanitarian assistance to alleviate the impact

of the conflict in Gaza and, in parallel, it has been preparing a comprehensive plan to address its aftermath.

12. Through project staff based in Gaza, the Bank is supporting the relevant PA institutions in the analysis, validation and quantification of damages; analysis of the service delivery and socio-economic impacts; and a preliminary quantification of reconstruction needs. Early analysis of the three sectors in which the Bank was already working as the PA's partner, shows that damage is extensive and that needs are urgent and significant: damage to water and sanitation are estimated at US\$34 million, energy at US\$42.5 million, and municipal infrastructure and public facilities at more than US\$50 million, excluding the infrastructure and networks owned and operated by utilities. Early damage assessments in the three sectors were judged to be adequate to proceed with project preparation of three emergency AFs, of which the GENRP AF is one. All of the three projects will rely on existing implementation mechanisms and funding sources, thus greatly expediting the ability to address the emergency reconstruction needs in Gaza. It was decided that the need to process the three AFs in the infrastructure sectors was immediate, and the World Bank was well placed to prepare the operations to focus on addressing emergency needs and avoiding humanitarian catastrophe in Gaza.

13. Based on the rapid damage assessments, an early draft of "The National Early Recovery and Reconstruction Plan for Gaza (NERRPG)" was prepared and was shared for consultation with the Bank and other development partners. Given that full damage and needs assessments for all relevant sectors are yet to be completed, the PA is cognizant that the plan will be a living document for the next few months. A detailed Damage and Needs Assessment (DNA) to assess the full scope of damage, economic loss and reconstruction needs is currently being launched by the PA. The DNA will utilize existing data and sectoral assessments currently being conducted by the PA and compile them into one internationally accepted standard for determining damage, loss and needs. This standard will be used to finalize the NERRPG and prioritize the PA's and donor interventions for recovery and long-term reconstruction. The DNA would be led and owned by the Government with assistance from a multi-disciplinary, multiagency team comprising the relevant United Nations agencies, the European Commission, and the World Bank.

### **Energy Sector Assessment**

14. Based on the preliminary assessment, the hostilities in Gaza in July-August 2014 have inflicted significant damage upon Gaza's power system:

- a. Medium voltage (MV) transmission lines importing electricity from Israel and Egypt have been damaged, limiting basic levels of supply.
- b. The fuel treatment and storage systems, and generation plant for Gaza's only power plant (GPP) – which is privately owned and operated - have been damaged, and according to PENRA will take more than a year to repair.
- c. Medium voltage (MV) and low voltage (LV) distribution networks, ubiquitous in urban environments, have been severely damaged and in some cases completely destroyed, constraining what little supply there is to areas that have remained undamaged.

- d. GEDCO's warehouse, and the goods and equipment for network repair and maintenance that it contained, have been completely destroyed, limiting short-term emergency repair to the electricity network.

15. Electricity supply was already highly constrained prior to the recent hostilities, with supply only being provided for eight hours per day. Supply is currently less than six hours per day, but only in areas where the distribution network has not been damaged and consumers remain connected. In many areas the distribution system has been completely destroyed and no electricity supply is available.

16. According to PENRA, Gaza City experienced an extended period with little or no supply at all – not only directly affecting Gazan residents, but also limiting other basic services that are reliant upon electricity supply including hospitals, water supply, and wastewater treatment.

17. PENRA, in conjunction with GEDCO has carried out an extensive damage assessment for the electricity sector. PENRA's initial estimates of damage to Gaza's electricity network total around US\$42.5 million. This does not include damage to the Gaza Power Station, or the cost of providing additional generation and expanded network infrastructure to provide full electricity supply to Gaza which is estimated at around US\$180 million.

18. PENRA's damage assessment is summarized in Annex 6. The impact of this damage is significant. Even after temporary repair:

- Approximately 190,000 people are entirely without electricity supply;
- The remainder of the population has limited supply of around six hours of power per day, but with poor levels of reliability and significant interruption;
- Other basic services that are reliant upon electricity have been reduced;
- In response to lack of electricity supply, incidences of theft and illegal connections have significantly increased, causing problems with load management and overloading, and posing the risk of network collapse;
- System losses have increased significantly due to the nature of temporary repairs that have been already undertaken on critical medium voltage infrastructure;
- Revenue collection for electricity supply has all but ceased;

19. In addition to this AF, which will allow GEDCO to meet part of its urgent need to reconstruct and rehabilitate the electricity distribution network, it is working in parallel to re-establish and increase bulk supply from Egypt, Israel and the Gaza Power Station. Temporary network arrangements have allowed an immediate increase in supply from 17MW to 32MW from Egypt, with ongoing negotiations seeking a further 15MW of short-term supply. Gaza Power Station is being repaired to operate in simple cycle mode to produce 60MW dependent upon fuel supplies. Finally, negotiations are being held with Israel to also increase supply through Israeli feeders.

20. The PA is also reaching out to other donors to support reconstruction efforts in the sector. It has already received, or re-programmed, approximately US\$5 million in other donor resources, to support immediate reconstruction needs. The PA is also seeking further development partner support to the reconstruction of the sector.

21. **Allocation of available funding across sectors:** Gaza Emergency AFs are also proposed for the ongoing Bank-financed Water Supply and Sewage System Improvement Project and the

Second Municipal Development Project, to address urgent needs and restore critical services in the water and wastewater, and municipal service sectors. Although total available funding will not suffice to address the full scope of damage from the July-August 2014 conflict, the proposed Gaza Emergency AF operations are critical given the urgent need to ensure delivery of critical basic services in the three sectors and enable the PA to respond to the emergency needs. Funds across the three sectors were allocated in close coordination with the PA sector authorities, based on the rapid damage assessments prepared with support from the Bank, and considering availability of sector funding from other donors, including for parallel financing. Allocation within sectors follows the priorities identified by the PA sector authorities. However, significant additional funding for recovery and reconstruction will be required and would need to be mobilized by the PA, as outlined in the following section.

22. **Alignment with Bank Strategy:** The proposed Additional Financing will provide assistance to restore critical infrastructure in the Gaza Strip, and is fully aligned with the World Bank Group's Assistance Strategy for the West Bank and Gaza for the Period FY15 – FY16. It is critical to ensuring service delivery to citizens, the first pillar of the Assistance Strategy. It is critical to restore basic electricity services in Gaza, since this would directly support the efforts of the PA to not only meet basic humanitarian needs, but also to eventually create an enabling environment for private sector-led growth, the second pillar of the Assistance Strategy. The AF would contribute to the World Bank Group's global twin goals to end extreme poverty and boost shared prosperity by reconnecting 190,000 customers to supply, providing more reliable electricity to 1.8 million people living in Gaza and restoring basic services that are dependent on reliable electricity supply. The project is also in line with the World Bank's MENA Regional Strategy, supporting the pillar on sustainable growth. It would also contribute to improved health and safety by improving the standard of the electricity network and its ability to contribute to other basic humanitarian services, and to environmental protection by ensuring sound network standards. The AF would support private sector development and employment generation through implementation contracts that would mostly be undertaken by local contractors and suppliers.

23. **Original Grant (GENRP):** The Development Objective of the original Grant is to *“rehabilitate and expand the electricity networks in Gaza in order to improve their reliability and performance.”* The project is implemented under two components, the first aimed at physical network rehabilitation (US\$4.5 million), and the second aimed at capacity building within the utility and technical assistance within the Palestinian Energy and Natural Resources Authority (US\$3.5 million). The original project became effective on June 18, 2012 and was originally scheduled to close on December 31, 2015.

#### **Status of Implementation and Performance of GENRP**

24. Despite the high risks associated with the Gaza environment, progress towards completion of GENRP development objectives and overall implementation have been satisfactory since the project commenced. Commitment and execution are on schedule. In June 2014 the overall commitment rate was 53 percent and overall disbursement rate was 33 percent, with both the network rehabilitation and expansion component, and the capacity building and technical assistance generally progressing according to plan.

25. Compliance with environment and social safeguards is satisfactorily aligned with the provisions planned under the 2011 Environment and Social Impact Assessment. All fiduciary

aspects of the project are satisfactorily managed, with procurement, financial management and disbursement consistently rated satisfactorily. To date, yearly financial audits are performed in a timely manner and satisfactory to the World Bank.

26. Substantial results have been achieved through the execution of the network rehabilitation and expansion component. As of May 2014, (i) 100 kilometers of new distribution lines were constructed out of the 139 kilometers expected to be constructed by December 2015; (ii) 10 kilometers of new transmission lines were constructed out of the 36 kilometers planned by December 2015; (iii) PENRA had finalized the purchase of 10,000 pre-paid meters and tariff collection had consequently increased from 40 percent to 50 percent with the partial deployment of these meters. Similar progress was recorded with the execution of the component for capacity building of GEDCO and technical assistance to PEA. The procurement of vehicles and other equipment was progressing and the recruitment of a consultant to develop a master plan for the Gaza electricity sector is about to proceed.

27. As of September 10, 2014, GENRP disbursements from the World Bank financing were at US\$2.8 million (35 percent).

28. **Alternatives Considered:** The World Bank considered providing financing to meet emergency energy sector needs in Gaza through a stand-alone emergency project. This alternative was not favored as it required longer processing time, whereas the needs in Gaza are immediate and critical. Since all the activities envisaged under this proposed AF are in line with the original GENRP PDO, with the original project components and implementation mechanisms already in place, the same fiduciary, environmental and social safeguard mechanisms can apply, thus facilitating almost immediate implementation.



### III. PROPOSED CHANGES

#### Summary of Proposed Changes

The following changes will be made:

- (i) The PDO will be changed to reflect a stronger focus on restoration of basic electricity services through reconstruction and rehabilitation activities. The PDO continues to be strategically aligned with the Assistance Strategy for the West Bank and Gaza.
- (ii) Component 1 (Electricity Network Reconstruction, Rehabilitation and Expansion) will be expanded to include additional reconstruction and rehabilitation activities, and to provide urgently needed goods and materials for emergency repairs.
- (iii) Component 2 (GEDCO Capacity Building and Technical Assistance to PEA) will be expanded to include a subcomponent for PMU operating costs, vehicles and office furniture; and to provide tools and equipment to allow GEDCO to undertake urgent repairs and maintenance.
- (iv) Procurement arrangements will be revised in line with OP10.00 paragraph 12 to allow for simplified procurement procedures for the additional financing component.
- (v) The Project Closing Date will be extended by 18 months from December 31, 2015 to June 30, 2017.

Activities under the original Project will also be modified to better address immediate reconstruction needs. Procurement of a financial management information system and mobile billing PCs will be canceled, and funds re-directed to purchase of 25,000 additional prepaid meters and control hardware, to help re-establish revenue flows.

The additional financing will be implemented using the same institutional framework and disbursement arrangements currently employed under the GENRP Project since these systems are performing well, remain appropriate, and have the capacity to absorb the additional funds.

Change in Implementing Agency	Yes [ ] No [ X ]
Change in Project's Development Objectives	Yes [ X ] No [ ]
Change in Results Framework	Yes [ X ] No [ ]
Change in Safeguard Policies Triggered	Yes [ ] No [ X ]
Change of EA category	Yes [ ] No [ X ]
Other Changes to Safeguards	Yes [ ] No [ X ]
Change in Legal Covenants	Yes [ ] No [ X ]
Change in Loan Closing Date(s)	Yes [ X ] No [ ]
Cancellations Proposed	Yes [ ] No [ X ]
Change in Disbursement Arrangements	Yes [ ] No [ X ]
Reallocation between Disbursement Categories	Yes [ ] No [ X ]
Change in Disbursement Estimates	Yes [ X ] No [ ]

Change to Components and Cost	Yes [ X ] No [ ]					
Change in Institutional Arrangements	Yes [ ] No [ X ]					
Change in Financial Management	Yes [ X ] No [ ]					
Change in Procurement	Yes [ X ] No [ ]					
Change in Implementation Schedule	Yes [ X ] No [ ]					
Other Change(s)	Yes [ ] No [ X ]					
<b>Development Objective/Results</b>						
<b>Project's Development Objectives</b>						
Original PDO The objective of the Project is to rehabilitate and expand the electricity networks in Gaza in order to improve their reliability and performance.						
<b>Change in Project's Development Objectives</b>						
Explanation: The Project Development Objective has been modified slightly to reflect a stronger focus on reconstruction and rehabilitation activities, and the difficulties inherent in meeting some of the original higher order objectives of improved system reliability and performance. The PDO continues to be strategically aligned with the Assistance Strategy for the West Bank and Gaza.						
Proposed New PDO - Additional Financing (AF)						
The objective of the project is to restore and improve basic electricity services in Gaza.						
<b>Change in Results Framework</b>						
Explanation: The Results Framework (RF) for the Additional Financing has been modified to reflect a stronger focus on reconstruction and restoration of basic electricity services, and to reflect the difficulty in now meeting some of the outcomes originally intended of the Project. The revised RF is presented in Annex 1.						
<b>Compliance</b>						
<b>Covenants - Additional Financing ( Gaza Emergency Response for Electricity Network Rehabilitation (AF) - P152411 )</b>						
<b>Source of Funds</b>	<b>Finance Agreement Reference</b>	<b>Description of Covenants</b>	<b>Date Due</b>	<b>Recurrent</b>	<b>Frequency</b>	<b>Action</b>
				<input type="checkbox"/>		
<b>Conditions</b>						
<b>Source Of Fund</b>		<b>Name</b>		<b>Type</b>		
Special Financing		Amendment Letter, paragraph 14		Effectiveness		
<b>Description of Condition</b>						
The Subsidiary Agreement has been revised according to the provisions of the Amendment Letter.						
<b>Risk</b>						

<b>Risk Category</b>							<b>Rating</b>			
Overall Risk Rating at Implementation							High			
<b>Finance</b>										
<b>Loan Closing Date - Additional Financing ( Gaza Emergency Response for Electricity Network Rehabilitation (AF) - P152411 )</b>										
<b>Source of Funds</b>						<b>Proposed Additional Financing Loan Closing Date</b>				
Special Financing						30-Jun-2017				
<b>Loan Closing Date(s) - Parent ( GZ-Gaza Electricity Network Rehabilitation Project - P116199 )</b>										
Explanation: As a result of the damage to the electricity sector in Gaza, project implementation has been delayed, results already achieved were negatively affected, and activities are being scaled-up under the proposed AF, requiring an extension of the closing date of 18 months.										
<b>Ln/Cr/TF</b>	<b>Status</b>	<b>Original Closing Date</b>	<b>Current Closing Date</b>	<b>Proposed Closing Date</b>	<b>Previous Closing Date(s)</b>					
TF-11639	Effective	31-Dec-2015	31-Dec-2015	30-Jun-2017						
<b>Change in Disbursement Estimates (including all sources of Financing)</b>										
Explanation: Expected disbursements have been updated to reflect the Additional Financing and the closing date extension.										
<b>Expected Disbursements (in USD Million)(including all Sources of Financing)</b>										
Fiscal Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Annual	8.00	9.00	6.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cumulative	8.00	17.00	23.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Allocations - Additional Financing ( Gaza Emergency Response for Electricity Network Rehabilitation (AF) - P152411 )</b>										
<b>Source of Fund</b>	<b>Currency</b>	<b>Category of Expenditure</b>	<b>Allocation</b>				<b>Disbursement %(Type Total)</b>			
			<b>Proposed</b>				<b>Proposed</b>			
SPF	USD	Goods, works, non-consulting services, consultants' services and Operating Costs for the Project	15,000,000.00				100.00			
		<b>Total:</b>	15,000,000.00							
<b>Components</b>										
<b>Change to Components and Cost</b>										
Explanation:										

Component 1 (Electricity Network Reconstruction, Rehabilitation and Expansion) will be expanded to include additional reconstruction and rehabilitation activities, and to provide urgently needed goods and materials for emergency repairs;

Component 2 (GEDCO Capacity Building and Technical Assistance to PEA and PMU) will be expanded to include a subcomponent for PMU operating costs, vehicles and office furniture; and to provide tools and equipment to allow GEDCO to undertake urgent repairs and maintenance;

Activities under the original project will also be modified to better meet immediate reconstruction needs. Procurement of a financial management information system (US\$1.48 million under Component 2) and mobile billing PCs (US\$249,000 under Component 1) will be canceled, and funds re-directed to purchase of 25,000 additional prepaid meters and control hardware (US\$1.5 million under Component 1), to help re-establish revenue flows. The balance of funds remaining from the cancellation of the above mentioned activities will be used to cover higher than estimated costs of prior procurement activities.

<b>Current Component Name</b>	<b>Proposed Component Name</b>	<b>Current Cost (US\$M)</b>	<b>Proposed Cost (US\$M)</b>	<b>Action</b>
Network Rehabilitation and Expansion (Bank financing US\$ 4.5 million)	Electricity Network Reconstruction, Rehabilitation and Expansion	12.50	28.32	Revised
Utility Capacity Building and Technical Assistance to PEA (Bank financing US\$ 3.5 million)	GEDCO Utility Capacity Building and Technical Assistance to PEA and PMU	3.50	2.68	Revised
	<b>Total:</b>	16.00	31.00	

#### Other Change(s)

<b>Implementing Agency Name</b>	<b>Type</b>	<b>Action</b>
No changes		

#### Change in Financial Management

Explanation:

There are no changes in the Financial Management arrangements per se, however, a separate U.S. Dollar Designated Account (DA) will be opened solely for this AF at Bank of Palestine (Ramallah). A private external auditor will be hired on a competitive basis to perform annual financial and technical audit for the Project, in accordance with terms of reference (ToR) acceptable to the Bank. In this context, the ToR should include a provision to hire/use relevant technical specialists as needed to perform the technical audit.

With respect to the extension of the project closing date, the Bank has assessed the Financial Management performance of the project. There are no overdue audit reports for the GENRP. The financial and technical audit reports, as well as management letter, for GENRP covering the year that ended December 31, 2013 has been submitted to the Bank in a timely manner, the auditor expressed an unqualified “clean” opinion. With respect to the technical audit and management letter, the auditor had identified certain weaknesses in the inventory management system. Considering the emergency nature of this AF, it was agreed that the

PMU will submit to the Bank a corrective action plan and time schedule to clear the observations mentioned in the technical audit report. Moreover, the technical auditor is required to follow up and ensure that these weaknesses are resolved in the following year's technical audit. See Annex 5 for more details on the assessment of financial management.

#### **Change in Procurement**

Explanation:

Since the AF is processed under OP 10.00 paragraph 12 "Projects in Situations of Urgent Need of Assistance or Capacity Constraints", simplified procurement procedures will be used in accordance with OP 11.0 (Procurement) paragraph 20.

#### **Change in Implementation Schedule**

Explanation:

The implementation schedule is revised to reflect the scale-up activities and the extended closing date. The Project Closing Date will therefore be extended by 18 months to 30 June 2017.

### **Appraisal Summary**

#### **Economic and Financial Analysis**

Explanation:

Given the significant damage to the electricity network in Gaza, the overall cost of the Project has increased significantly, in order to now meet the requirement to re-establish basic electricity services. The post-conflict state of the electricity network has been considered as the new baseline for measurement of economic performance of the Project. From this baseline the economic return on Project activities is very high.

The economic and financial rates of return for the original GENRP remain achievable, but from a lower base, given the damage that has occurred to the distribution network and the focus of the additional financing on reconstruction and restoration of electricity supply. The additional financing will focus on restoration of basic electricity services, which, in addition to serving as a humanitarian necessity, will also provide the following economic benefits:

- Restoration of around 230 GWh per year of electricity supply;
- Reduction in system technical and non-technical losses. Network losses in Gaza are estimated to have risen to 40 percent, given the prevalence of temporary network repairs throughout the MV and LV system, and increased instances of electricity theft. Reconstruction of the electricity network is expected to reduce losses to at least 30 percent, inclusive of both technical and non-technical losses.
- Decrease in supply interruptions caused by network outages as a result of network reconstruction and rehabilitation.
- Increased safety. As a result of emergency repairs the current network poses significant safety risk to GEDCO employees and the local population. The reconstruction of the network will address safety issues as a matter of course.

Based on a comparative analysis of economic costs/benefits vis-à-vis the original Project, it is expected that the modified Project will still achieve an economic rate of return in excess of 35 percent. This high rate of return reflects the high value of lost load (VoLL), and the significant economic cost associated with

non-supply of electricity. Although the level of investments (or cost) of the modified Project are now more significant, the economic benefits achieved by the Project through the re-establishment of electricity supply are disproportionately higher than those of the original Project.

Prior to hostilities, GEDCO was steadily improving its financial position. In addition to a reduction in system losses, roll-out of over 11,000 smart meters had contributed to an increase in collection rates from 40 percent to 50 percent, and these were set to rise to 70 percent by December 2015. Since hostilities, revenues have again plunged, with collection rates currently at around ten percent. The modified Project will support GEDCO in at least returning to its previous (40 percent collection) financial position, through reestablishment of revenue flows.

An alternative to reconstruction of the electricity network is the provision of distributed small generation. This option has been discounted on the basis of the economic analysis, negative environmental effects, and impractical logistics of supplying fuel for distributed generation across Gaza. (see Annex 7 for the comparison of network reconstruction with distributed generation).

### **Technical Analysis**

Explanation:

The Project remains technically viable and optimal. The options for reconstruction and rehabilitation of MV and LV networks are selected on a least-cost basis. Specifications for equipment will be consistent with the design and structure of the existing network, and to appropriate safety standards. The Project will employ modern technological practice in reconstruction, rehabilitation and reconfiguration of the distribution network: a) underground cabling technology to replace run-down overhead electrical MV networks in urban areas; b) aerial bundled cable (ABC) for the rehabilitation and reconstruction of the LV network; c) modern, efficient and standard distribution equipment; and d) phase-out of nonstandard medium and low voltages. This will help ensure reliable and efficient supply of electricity as well as reducing the cost of network maintenance and expansion as well as reducing system losses and improving collections.

### **Social Analysis**

Explanation:

The social impacts of this project are generally positive and are mostly related to the rehabilitation of networks and purchase of supplies, which will allow for increased electricity availability to communities and other basic service providers. The potential negative impacts of the project are in general limited to the project rehabilitation phase and may include noise, dust, obstruction of access to business and houses, etc. The Bank's Policy on Involuntary Land Acquisition and Resettlement (OP 4.12) does not apply as project level works are being carried out on public lands and not affecting private lands nor livelihoods (either permanently or temporarily). Works involving rehabilitation as part of GENRP AF will not be on sites where internally displaced people (IDPs) are present. Any rehabilitation/reconstruction that is potentially on-sites with internally displaced peoples will be excluded. Formal consultations were held across each of the five Gaza governorates. Information on activities financed under this AF will be communicated to the beneficiary population by the following process: Social and environment documentation will continue to be made available locally in easily accessible locations in the local language (Arabic). Under GENRP, a complaints mechanism (Grievance Redress Mechanism or GRM) exists. GEDCO has assigned staff to document and respond to complaints and ensured general community awareness of where to make complaints during consultations and a public awareness campaigns for the project. However, most complaints are responded to verbally and not documented. PENRA will work with GEDCO to ensure the GRM is accessible to the population and documentation of all complaints is maintained as part of the Additional Financing.

## **Environmental Analysis**

### **Explanation:**

The project activities are expected to have a significant positive environmental and social impact on the entire population of Gaza by rehabilitating the electricity network infrastructure that was damaged during the hostilities of July-August 2014 in the five governorates of Gaza, and restoring the necessary electrical supply to households and social infrastructure such as water and sanitation facilities, hospitals, and schools. The scope of works and activities of sub-projects envisaged in this additional financing (AF) are similar in nature and scale to the original activities of the parent project (GENRP), and the additional financing of GENRP will have the same environmental category (B) as GENRP. The parent project (GENRP) and this proposed additional financing (AF) triggers only OP 4.01, no activities of the additional financing are expected to trigger other safeguards policies. Existing safeguards instruments (Environmental and Social Impact Assessment – ESIA, and Environmental Management Plan - EMP) being used by the implementing agency remain relevant and cover the additional works proposed under the AF. These safeguards instruments were disclosed in Gaza on November 28, 2011 and on the World Bank external website on November 29, 2011.

### Annex 1 – Revised Results Framework and Monitoring Indicators

Project Name:	Gaza Emergency Response for Electricity Network Rehabilitation (AF) (P152411)	Project Stage:	Additional Financing	Status:	DRAFT
Team Leader:	Simon J. Stolp	Requesting Unit:	MNC04	Created by:	Mark M. Njore on 02-Sep-2014
Product Line:	Special Financing	Responsible Unit:	GEEDR	Modified by:	Mark M. Njore on 22-Sep-2014
Country:	West Bank and G	Approval FY:	2015		
Region:	MIDDLE EAST AND NORTH AFRICA	Lending Instrument:	Investment Project Financing		
Parent Project ID:	P116199	Parent Project Name:	GZ-Gaza Electricity Network Rehabilitation Project (P116199)		

#### Project Development Objectives

Original Project Development Objective - Parent:

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

Proposed Project Development Objective - Additional Financing (AF):

The Project objective is to restore and improve basic electricity services in Gaza.

#### Results

Core sector indicators are considered: Yes

Results reporting level: Project Level

#### Project Development Objective Indicators

Status	Indicator Name	Core	Unit of Measure		Baseline	Actual(Current)	End Target
Marked for Deletion	Increase in Collection	<input type="checkbox"/>	Percentage	Value	40.00	50.00	70.00
				Date	01-Jun-2012	29-May-2014	31-Dec-2015
				Comment		Improvements in revenue collections have been seen with the introduction of pre-paid meters, and are still expected to improve as the project is implemented.	
New	Direct project beneficiaries	<input checked="" type="checkbox"/>	Number	Value	0.00	0.00	190000.00
				Date	09-Oct-2014	09-Oct-2014	30-Jun-2017



				Comment			
New	Female beneficiaries	<input checked="" type="checkbox"/>	Percentage Sub Type Supplemental	Value	0.00	0.00	49.00
New	People provided with access to electricity by household connections	<input checked="" type="checkbox"/>	Number	Value	0.00	0.00	190000.00
				Date	09-Oct-2014	09-Oct-2014	30-Jun-2017
				Comment			
New	People provided with access to electricity by household connections-Grid	<input checked="" type="checkbox"/>	Number Sub Type Breakdown	Value	0.00	0.00	190000.00
				Date	09-Oct-2014	09-Oct-2014	30-Jun-2017
				Comment			
New	Community electricity reconnections to the grid	<input type="checkbox"/>	Number	Value	0.00	0.00	1056.00
				Date	09-Oct-2014	09-Oct-2014	30-Jun-2017
				Comment			
New	Water pumping stations reconnected to the grid	<input type="checkbox"/>	Number Sub Type Breakdown	Value	0.00	0.00	97.00
				Date	09-Oct-2014	09-Oct-2014	30-Jun-2017
				Comment			
New	Commercial consumers reconnected to the grid	<input type="checkbox"/>	Number Sub Type Breakdown	Value	0.00	0.00	950.00
				Date	09-Oct-2014	09-Oct-2014	30-Jun-2017
				Comment			
New	Hospitals and clinics reconnected to the grid	<input type="checkbox"/>	Number Sub Type Breakdown	Value	0.00	0.00	9.00
				Date	09-Oct-2014	09-Oct-2014	30-Jun-2017
				Comment			
New	Increased distribution supply capacity	<input type="checkbox"/>	Gigawatt-hour (GWh)	Value	0.00	0.00	230.00
				Date	09-Oct-2014	09-Oct-2014	30-Jun-2017
				Comment			
Revised	System Loss Reduction	<input type="checkbox"/>	Percentage	Value	30.00	40.00	30.00
				Date	01-Jun-2012	09-Oct-2014	30-Jun-2017
				Comment		Although system losses had improved, damage incurred during conflict has exacerbated losses – now around 40%.	Extensive damage to electricity distribution infrastructure has resulted in the baseline and targeted improvement changing.

New	Re-establishment of Collection	<input type="checkbox"/>	Percentage	Value	40.00	10.00	40.00
				Date	01-Jun-2012	09-Oct-2014	30-Jun-2017
				Comment		Collections have plunged to around 10% as a result of hostilities. The Project will now seek to re-establish collections and revenue flow.	Disruption in collections and revenue flow will be addressed, to re-establish collections to prior levels
<b>Intermediate Results Indicators</b>							
Status	Indicator Name	Core	Unit of Measure		Baseline	Actual(Current)	End Target
New	Replenishment of materials for emergency repairs	<input type="checkbox"/>	Percentage	Value	0.00	0.00	100.00
				Date	09-Oct-2014	09-Oct-2014	30-Jun-2017
				Comment			
New	Procurement of new smart meters	<input type="checkbox"/>	Number	Value	0.00	11,500	25000.00
				Date	09-Oct-2014	09-Oct-2014	30-Jun-2017
				Comment			
New	Grievances registered related to delivery of project benefits addressed (%)	<input checked="" type="checkbox"/>	Percentage	Value	0.00	0.00	100.00
				Date	09-Oct-2014	09-Oct-2014	30-Jun-2017
				Comment			
New	Grievances related to delivery of project benefits that are addressed-(number)	<input checked="" type="checkbox"/>	Number Sub Type Supplemental	Value	0.00	0.00	80.00
				Date			
				Comment			
Revised	Distribution lines constructed or rehabilitated under the project	<input checked="" type="checkbox"/>	Kilometers	Value	0.00	100.00	464.00
				Date	01-Jun-2012	09-Oct-2014	30-Jun-2017
				Comment		Implementation well underway and accelerating.	An additional 301kms of LV lines will be reconstructed under Additional Financing.
Revised	Distribution lines constructed under the project	<input checked="" type="checkbox"/>	Kilometers Sub Type Breakdown	Value	0.00	100.00	464.00
				Date	01-Jun-2012	09-Oct-2014	30-Jun-2017
				Comment		Implementation well underway and	An additional 301kms of LV

						accelerating.139 km of LV lines constructed under Component 1, Subcomponent 1; and 24km of overhead lines under Subcomponent 301 km of LV lines constructed under additional financing.	lines will be reconstructed under Additional Financing
Revised	Transmission lines constructed or rehabilitated under the project	<input checked="" type="checkbox"/>	Kilometers	Value	0.00	10.00	157.00
				Date	01-Jun-2012	09-Oct-2014	30-Jun-2017
				Comment		Construction commenced	36km of new 22kV underground feeders under Subcomponent 2.
Revised	Transmission lines constructed under the project	<input checked="" type="checkbox"/>	Kilometers Sub Type Breakdown	Value	0.00	10.00	157.00
				Date	01-Jun-2012	09-Oct-2014	30-Jun-2017
				Comment		36km of new 22kV underground feeders under Subcomponent 121 kms of reconstructed MV lines under Additional Financing.	An additional 121 MV lines will be reconstructed under the Additional Financing.
Revised	Incremental increase in MVA capacity of MV Feeders	<input type="checkbox"/>	Number	Value	0.00	0.00	40.00
				Date	01-Jun-2012	09-Oct-2014	30-Jun-2017
				Comment		New feeders will result in increased capacity of MV network.	
No Change	Electricity Master Plan for Gaza	<input type="checkbox"/>	Text	Value	Consultant recruited	procurement now commencing	Final master plan complete
				Date	01-Jun-2012	29-May-2014	31-Dec-2014
				Comment			

## Annex 2 – Revised Operational Risk Assessment Framework (ORAF)

### West Bank and Gaza: Gaza Emergency Response for Electricity Network Rehabilitation (AF) (P152411)

Project Stakeholder Risks						
<b>Stakeholder Risk</b>	<b>Rating</b>	<b>Moderate</b>				
<p><b>Risk Description:</b></p> <p>The most significant stakeholder risk under the original project was associated with installation of smart meters. However, pilot installation of 11,500 smart meters has shown strong positive sentiment and increasing consumer demand for pre-payment.</p> <p>The modified Project will meet strong stakeholder demand for re-connection and reestablishment of basic electricity supply. Under the modified project, stakeholder risk is therefore considered Moderate.</p>	<b>Risk Management:</b>					
	<p>The significant focus of the project is now on reconstruction. The re-establishment of electricity supply is of itself a means of stakeholder risk mitigation given the strong demand for basic electricity services. Stakeholder risks will be mitigated by ensuring immediate emergency repairs through provision of necessary goods and materials, and further reconstruction as soon as possible thereafter.</p> <p>The metering component of the project has been implemented on a pilot basis to test effectiveness and impact. The expanded pre-paid meter program will not include installing such meters with vulnerable consumers.</p> <p>The pilot installation of pre-paid meters was highly successful, with consumers expressing strong positive support for the installation of smart meters. Prior to the conflict in Gaza, GEDCO sought to expand installation of pre-paid meters due to strong customer demand.</p>					
	<b>Resp:</b>	<b>Status:</b>	<b>Stage:</b>	<b>Recurrent:</b>	<b>Due Date:</b>	<b>Frequency:</b>
	Client	In Progress	Implementation	<input type="checkbox"/>	30-Jun-2017	
	<b>Risk Management:</b>					
	<p>An Environmental and Social Management Plan for the project has been prepared addressing concerns of business disruption during construction. During consultations, mitigation measures were explained to the public. When construction takes place, entrance to stores and homes is being facilitated through the provision of walkways.</p>					
	<b>Resp:</b>	<b>Status:</b>	<b>Stage:</b>	<b>Recurrent:</b>	<b>Due Date:</b>	<b>Frequency:</b>
	Client	Completed	Implementation	<input type="checkbox"/>	30-Jun-2017	
Implementing Agency (IA) Risks (including Fiduciary Risks)						
<b>Capacity</b>	<b>Rating</b>	<b>Moderate</b>				
<b>Risk Description:</b>	<b>Risk Management:</b>					

<p>Delays in project preparation and implementation may be caused by GEDCOs lack of capacity and knowledge of project management and Bank requirements. However, this risk is now moderated by the experience that PEA and GEDCO have had on the original project, where project implementation has been strong.</p>	<p>The PMU and PEA, which is currently implementing the multi-donor funded EUMP along with other donor-funded projects, will be responsible for the procurement, financial management and overall oversight responsibility of the implementation aspects of the project. GEDCO will be responsible for civil and installation works through its technical staff and local contractors who have experience in implementing similar projects in the past. Furthermore, the Utility Capacity Building component of the Project will provide tools to strengthen GEDCO's implementation and operational capacity.</p>				
	<b>Resp:</b>	<b>Status:</b>	<b>Stage:</b>	<b>Recurrent:</b>	<b>Due Date:</b>
	Client	In Progress	Implementation	<input type="checkbox"/>	30-Jun-2017
	<b>Risk Management:</b>				
	<p>Procurement and financial management aspects will be handled by the PEA PMU. Technical assistance will continue to be provided to enhance GEDCOs planning and procurement capacity. The annual audits will also include physical audits of the project implementation.</p>				
<b>Resp:</b>	<b>Status:</b>	<b>Stage:</b>	<b>Recurrent:</b>	<b>Due Date:</b>	
Client	In Progress	Implementation	<input type="checkbox"/>	30-Jun-2017	
<b>Risk Management:</b>					
<p>The Bank will continue to conduct regular supervision missions including visits to Gaza about once a quarter, to ensure that implementation is proceeding as scheduled. The Bank missions will also include technical specialists with experience in the project to supervise and advise GEDCO on project activities and will also review the need for additional support and training if required by the PMU and GEDCO during implementation.</p>					
<b>Resp:</b>	<b>Status:</b>	<b>Stage:</b>	<b>Recurrent:</b>	<b>Due Date:</b>	
Bank	In Progress	Implementation	<input type="checkbox"/>	30-Jun-2017	
<b>Governance</b>	<b>Rating</b>	<b>Moderate</b>			
<p>Risk Description: Lack of coordination between PEA and GEDCO in preparing the project components and their implementation.</p>	<b>Risk Management:</b>				
	<p>PEA includes staff in West Bank and Gaza responsible for coordinating with GEDCO on the electricity sector and the PMU will also designate staff responsible specifically for coordinating the project activities with GEDCO. Furthermore, both PEA and GEDCO have cooperated well during project preparation and implementation of the original Project so this risk is not expected to be significant.</p>				
<b>Resp:</b>	<b>Status:</b>	<b>Stage:</b>	<b>Recurrent:</b>	<b>Due Date:</b>	

	Client	In Progress	Implementation	<input type="checkbox"/>	30-Jun-2017	
	<p><b>Risk Management:</b></p> <p>The Bank has put in place stringent controls to ensure the project is appropriately monitored through procurement and financial management reviews.</p> <p>An external auditor will continue to act on the Bank's behalf. To date no irregularities have been reported in the procurement and financial management activities of the original Project.</p> <p>Project Interim Financial Reports (IFR) and audit will cover all project activities and financing sources, with separate recording for each financier.</p> <p>Different layers of monitoring for project related payments and progress are in place (technical by PEA staff based on Gaza, PMU financial and procurement teams, pre-verification of MoF financial controller based at PEA).</p>					
	<b>Resp:</b>	<b>Status:</b>	<b>Stage:</b>	<b>Recurrent:</b>	<b>Due Date:</b>	<b>Frequency:</b>
	Bank	In Progress	Implementation	<input type="checkbox"/>	30-Jun-2017	
<b>Project Risks</b>						
<b>Design</b>	<b>Rating</b>	<b>Moderate</b>				
<p><b>Risk Description:</b></p> <p>The scope of the project is limited to network reconstruction and reinforcement.</p> <p>Due to the significant scope of reconstruction, rehabilitation and expansion of the electricity networks and technical assistance, preparation of the final technical specifications and tender documents for the investments and technical assistance components financed by the project could take longer than scheduled.</p>	<p><b>Risk Management:</b></p> <p>The project components were identified after a detailed review by the Bank based on assessments performed by the PEA and GEDCO and visits to project sites. The investment components proposed are of proven design and the project provides a streamlined approach focusing on financing conventional sub projects reconstruct and rehabilitate the electricity network.</p> <p>To allow fast procurement and meet the implementation schedule, GEDCO has already prepared the bill of quantities for most of the investment projects under Component 1. PEA also agreed to use the services of an existing international consulting firm retained by PEA and whose contract is financed by the European Commission (EC) for the identification and development of the technical design and specifications including the preparation of the bidding documents for the above IT hardware and software subcomponents proposed for financing under Component 2.</p> <p>Given that expanded reconstruction activities are similar in nature to supply and installation contracts already in progress, GEDCO should be able to move quickly to develop procurement documentation for expanded activities.</p>					
	<b>Resp:</b>	<b>Status:</b>	<b>Stage:</b>	<b>Recurrent:</b>	<b>Due Date:</b>	<b>Frequency:</b>

	Client	In Progress	Implementation	<input type="checkbox"/>	30-Jun-2017	
<b>Social and Environmental</b>	<b>Rating</b>	<b>Moderate</b>				
<b>Risk Description:</b> Due to the nature of the project being largely reconstruction and rehabilitation of existing facilities, the environmental and social impacts are expected to be minimal. An ESIA and ESMP have been prepared and are currently under implementation. GEDCO has demonstrated its capacity to manage social and environmental safeguards issues on the original project.	<b>Risk Management:</b> GEDCO has prepared and is satisfactorily implementing an Environmental and Social Management Plan (ESMP) to mitigate the minimal environmental and social impact of the project. Furthermore, network expansion sub projects will be constructed on public and municipality owned lands and will not require land acquisition. Capacity building will continue to be provided to GEDCO for the supervision of the safeguards requirements.					
	<b>Resp:</b> Client	<b>Status:</b> In Progress	<b>Stage:</b> Implementation	<b>Recurrent:</b> <input type="checkbox"/>	<b>Due Date:</b> 30-Jun-2017	<b>Frequency:</b>
<b>Program and Donor</b>	<b>Rating</b>	<b>Low</b>				
<b>Risk Description:</b> While the cooperation with IsDB in financing the proposed Project could foster new cooperation between the Bank and IsDB in the rehabilitation of Gaza infrastructure, it could also impose a project implementation risk if financing arrangements lag or are inadequate.	<b>Risk Management:</b> Coordination between Bank and IsDB components of the original Project have proceeded smoothly and without complication. The risk to project implementation of donor coordination is now considered Low.					
	<b>Resp:</b> Bank	<b>Status:</b> In Progress	<b>Stage:</b> Implementation	<b>Recurrent:</b> <input type="checkbox"/>	<b>Due Date:</b> 30-Jun-2017	<b>Frequency:</b>
<b>Delivery Monitoring and Sustainability</b>	<b>Rating</b>	<b>Moderate</b>				
<b>Risk Description:</b> Delivery of the project may be impacted by the use of less experienced GEDCO staff and local contractors.	<b>Risk Management:</b> The quality of the project will be monitored by the Bank, and PMU to ensure it adheres to the required technical standards. Technical assistance will also be provided to GEDCO for capacity building.					
	<b>Resp:</b> Both	<b>Status:</b> In Progress	<b>Stage:</b> Implementation	<b>Recurrent:</b> <input type="checkbox"/>	<b>Due Date:</b> 30-Jun-2017	<b>Frequency:</b>
<b>Other (Optional)</b>	<b>Rating</b>	<b>High</b>				
<b>Risk Description:</b> The continued restrictions on entry to Gaza may delay or block the transfer of goods and materials to Gaza and therefore project implementation.	<b>Risk Management:</b> To mitigate any potential restrictions of access to Gaza, the implementation of the proposed Project will initially follow successful arrangements for the supply of equipment and materials for the repair of the electricity network in Gaza provided under the GENRP original project. Procurement will be carried out by PEA and when movement restrictions are imposed, supplied					

materials will be delivered and stored in PEAs warehouses in West Bank. The PEA will then coordinate with the Israeli authorities and GEDCO on the transfer of the materials to Gaza. GEDCO will also be responsible for the civil and installation works utilizing its staff and local contractors to minimize impact on installation aspects once material delivery is fulfilled.

<b>Resp:</b> Client	<b>Status:</b> In Progress	<b>Stage:</b> Implementation	<b>Recurrent:</b> <input type="checkbox"/>	<b>Due Date:</b> 30-Jun-2017	<b>Frequency:</b>
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Overall Risk

<b>Overall Implementation Risk:</b>	<b>Rating</b>	<b>High</b>
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Risk Description:

The implementation risk rating is high largely due to the complex political context in the West Bank and Gaza. If restrictions are imposed by the Government of Israel on Gaza, project implementation will be severely hampered. In addition, possible rivalry between the Fatah and Hamas factions could also impact implementation. Any disruption in the political and security environment could impact the ability of Bank staff to travel to Gaza and provide support to GEDCO as needed. However, with a Bank office in Gaza, this is not expected to have an adverse impact over a prolonged period. Moreover the nature of the project allows for simple design and the experience gained from other projects implemented in West Bank and Gaza allow for a good understanding of the successful implementation arrangements already in place. While the physical implementation of the project is fairly straight-forward, the most significant risk lies in access restrictions imposed on Gaza, which could hinder progress.



### **Annex 3 – Detailed Description of Modified or New Activities**

1. This AF will allow GEDCO to meet part of its urgent need to reconstruct and rehabilitate the electricity distribution network in Gaza, thereby allowing it to achieve the following:
  - (i) increase reliability and level of electricity supply to a population of around 1.8 million people that are currently receiving only 6 hours of electricity per day in areas where distribution infrastructure is intact, and no electricity at all in areas where distribution infrastructure has been damaged;
  - (ii) re-connect approximately 190,000 people, 97 water pumping stations, 9 hospitals/clinics and 950 commercial consumers that are currently not connected to electricity supply
  - (iii) increase reliability and level of supply to other basic humanitarian services providers that are reliant upon electricity supply including further hospitals, water supply and wastewater treatment plants which would receive improved service;
  - (iv) provide urgently needed goods and materials, lost in the destruction of GEDCO's warehouse, which would enable emergency repairs and system strengthening.
2. GEDCO is working in parallel to re-establish and increase bulk supply from Egypt, Israel and the Gaza Power Station. Temporary network arrangements have allowed an immediate increase in supply from 17MW to 32MW from Egypt, with ongoing negotiations seeking a further 15MW of short-term supply. Gaza Power Station is being repaired to operate in simple cycle mode to produce 60MW, dependent upon fuel supplies. Finally, negotiations are being held with Israel to also increase supply through Israeli feeders.
3. The AF will finance supply and installation of electricity distribution infrastructure, and associated implementation costs, in order to (i) reconstruct damaged electricity infrastructure and restore basic electricity services; (ii) strengthen the existing network and improve supply in areas where population movement has increased load; (iii) re-establish and improve revenue collections for electricity; and, (iv) restore and enhance the capacity of PENRA and GEDCO to deliver electricity services.
4. In order to accommodate the Additional Financing, the original project will be re-structured as follows: (i) restructuring of Component 1 (Electricity Network Reconstruction, Rehabilitation and Expansion) to include additional reconstruction and rehabilitation activities, and to provide urgently needed goods and materials for emergency repairs; (ii) restructuring of Component 2 (GEDCO Capacity Building and Technical Assistance to PEA and PMU) to include a subcomponent for Project Management Unit (PMU) operating costs, provision of warehouse space, vehicles and office furniture; and to provide tools and equipment to allow GEDCO to undertake urgent repairs and maintenance;
5. Activities under the original Project will also be modified to better address immediate reconstruction needs. Procurement of a financial management information system and

mobile billing PCs will be cancelled, and funds re-directed to purchase of 25,000 additional pre-paid meters and control hardware, to help re-establish revenue flows.

## **6. Modifications to the original Project:**

The following activities under the original project will be modified due to changes in the implementation environment, and the need to now focus on reconstruction and re-establishment of collections and revenue stream:

### ***Modifications to Component 1 and 2 (Financed under the original Project):***

Supply of mobile billing PCs (US\$230,000 under Component 1), and supply of IT hardware and software and tools (US\$1.44 million under Component 2), will be dropped from the Project due to the need to now focus on urgent reconstruction and re-establishment of basic revenue collection. These funds will be re-allocated to Component 1 of the Project to support re-establishment of revenue collection through purchase and installation of 25,000 additional pre-paid meters (US\$1.02 million) and control hardware (US\$500,000). The balance of funds from the cancellation of the abovementioned procurement will be used to cover costs of prior activities that have been higher than original estimates.

## **7. Additional Activities to be financed by this proposed Additional Financing**

The following additional activities will be covered by the additional financing:

### **1) Additional activities under Component 1 (Financed by this AF):**

#### ***Project 1a: North Gaza Governorate MV and LV Reconstruction (US\$2.03 million)***

- Reconstruction of 25 kms of MV, and 54 kms of LV network in the North Gaza Governorate;
- Re-connection of 4000 residential consumers to supply approximately 36,000 people;
- Reconnection of 60 water supply pumping stations with 1200 hp vol. capacity;
- Reconnection of 3 hospitals;
- Reconnection of 300 commercial consumers;
- Increase in supply to above consumers of 4200 MWhr per month.

#### ***Project 1b: Gaza Governorate MV and LV Reconstruction (US\$3.79 million)***

- Reconstruction of 36 kms of MV, and 92 kms of LV network in the Gaza Governorate;
- Re-connection of 8500 residential consumers to supply approximately 70,000 people;
- Reconnection of 15 water supply pumping stations with 345 hp vol. capacity;
- Reconnection of 2 hospitals;
- Reconnection of 417 commercial consumers;
- Increase in supply to above consumers of 6800 MWhr per month.

#### ***Project 1c: Middle Governorate MV and LV Reconstruction (US\$1.42 million)***

- Reconstruction of 14 kms of MV, and 55kms of LV network in the Middle Governorate;
- Re-connection of 2800 residential consumers to supply approximately 25,000 people;
- Reconnection of 7 water supply pumping stations with 160 hp vol. capacity;

- Reconnection of 1 hospital;
- Reconnection of 107 commercial consumers;
- Increase in supply to above consumers of 2400 MWhr per month.

***Project 1d: Khan Younis Governorate MV and LV Reconstruction (US\$1.72 million)***

- Reconstruction of 22kms of MW, and 51 kms of LV network in the Khan Younis Governorate;
- Re-connection of 4500 residential consumers to supply approximately 30,000 people;
- Reconnection of 6 water supply pumping stations with 135 vol. capacity;
- Reconnection of 1 hospital;
- Reconnection of 88 commercial consumers;
- Increase in supply to above consumers of 3350 MWhr per month.

***Project 1e: Rafah Governorate MV and LV Reconstruction (US\$1.66 million)***

- Reconstruction of 24 kms of MV and 49 kms of LV network in Rafah Governorate;
- Re-connection of 3250 residential consumers to supply approximately 28,000 people;
- Reconnection of 9 water supply pumping stations with 195 vol. capacity;
- Reconnection of 2 hospitals;
- Reconnection of 34 commercial consumers;
- Increase in supply to above consumers of 2550 MWhr per month.

***Goods and Materials Supply: (US\$3.8 million)***

Supply of urgently required distribution network goods and materials. These will replace a portion of the goods and materials lost in the destruction of the GEDCO warehouse, and allow for emergency repairs and smaller reconstruction projects on the existing network, where work will be undertaken by GEDCO.

These goods and materials will include:

- 17 Kms. MV wires and cables
- 60 Kms. LV cables
- 30 MV steel poles
- 50 LV steel poles
- 700 LV wooden poles
- 45 distribution transformers
- 50 MV Isolating Switch
- 90 LV Dis-connectors

**2) Additional activities under Component 2 (Financed by this AF):**

***Supply of Tools and Equipment (US\$0.4 million):***

Supply of urgently required tools and equipment to support emergency repair work, and smaller reconstruction projects to be undertaken by GEDCO, including:

- Electrical works tools;
- PMU Gaza office vehicle;
- PMU Gaza office furniture;
- Computer Hardware (for goods and materials inventory management);

***Provision of Warehouse Space (US\$0.1 million):***

Minor repairs and cleanup of GEDCO warehouse, or provision of alternate warehousing areas to allow receipt of goods and materials procured under this Project.

***Support for Operating Costs (US\$80,000):***

- PMU Operating Costs (Office rental and running costs): US\$40,000
- Consulting Services for Audit of Additional Financing Component: US\$40,000

#### Annex 4 – Revised Estimate of Project Cost

<b>Project Components</b>	<b>Total Project Cost (US\$ million)</b>	<b>WB (Original Financing after restructuring) (US\$ million)</b>	<b>WB (Additional Financing) (US\$ million)</b>	<b>IsDB (Original Financing) (US\$ million)</b>
1. Electricity Network Reconstruction, Rehabilitation and Expansion	27.42	5.6	14.42	7.4
2. GEDCO Capacity Building and Technical Assistance to PEA and PMU	2.58	2.0	0.58	0.0
<b>Total Baseline Costs</b>	30.0	7.6	15.0 (includes contingencies)	7.4
Physical Contingencies	0.6	0.2	0.0	0.4
Price Contingencies	0.4	0.2	0.0	0.2
Approximate Total Project Costs	31.0	8.0	15.0	8.0
Interest During Implementation	0.0	0.0	0.0	0.0
Front-End Fees	0.0	0.0	0.0	0.0
<b>Total Financing Required</b>	31.0	8.0	15.0	8.0

## Additional Financing: Project Cost Estimate including Contingencies

### Immediate Network Reconstruction

Project	Description		Total Cost (US\$)	Beneficiaries/Outcomes
Project 1a: North Gaza Gov. MV and LV Reconstruction	<b>Reconstruction of the MV and LV networks in North Gaza Governorate:</b>		2,031,348	Re-connection of 4000 no. residential consumers to feed about 36,000 People
	25	Kms. MV wires and cables		Reconnection of 60 no. water supply pumping stations with 1200 hp vol. capacity
	54	Kms. LV Cables		Reconnection of 3 hospitals
	42	No. of M.V steel poles		Reconnection of 300 commercial consumers
	89	No. of L.V steel poles		Increase in supply to above consumers of 4200 MWhr per month
	950	No. of L.V wooden poles		
	21	No. of distribution transformers		
	25	No. of M.V Isolating Switch		
	72	No. of L.V Disconnecter		
	9	MVA Increase in system capacity		
	Project covers supply and installation			
Project 1b: Gaza Gov, MV and LV Reconstruction	<b>Reconstruction of the MV and LV networks in Gaza Governorate:</b>		3,787,829	Re-connection of 8500 no. residential consumers to feed about 70,000 People
	36	Kms. MV wires and cables		Reconnection of 15 no. water supply pumping stations with 345 hp vol. capacity
	92	Kms. LV Cables		Reconnection of 2 hospital
	67	No. of M.V steel poles		Reconnection of 417 commercial consumers
	151	No. of L.V steel poles		Increase in supply to above consumers of 6800 MWhr per month
	1905	No. of L.V wooden poles		
	43	No. of distribution transformers		
	39	No. of M.V Isolating Switch		
	146	No. of L.V Disconnecter		
	17	MVA Increase in system capacity		
	Project covers supply and installation			
Project 1c: Middle Gov. MV and LV	<b>Reconstruction of the MV and LV networks in Middle Governorate:</b>		1,421,286	Re-connection of 2800 no. residential consumers to feed about 25,000 People

Reconstruction	14	Kms. MV wires and cables		Reconnection of 7 no. water supply pumping stations with 160 hp vol. capacity
	55	Kms. LV Cables		Reconnection of 1 hospital
	33	No. of M.V steel poles		Reconnection of 107 commercial consumers
	76	No. of L.V steel poles		Increase in supply to above consumers of 2400 MW hr per month
	777	No. of L.V wooden poles		
	13	No. of distribution transformers		
	13	No. of M.V Isolating Switch		
	36	No. of L.V Disconnecter		
	5	MVA Increase in system capacity		
	Project covers supply and installation			
Project 1d: Khan Younis Gov. MV and LV Reconstruction	<b>Reconstruction of the MV and LV networks in Khan Younis Governorate:</b>		1,717,495	Re-connection of 4500 no. residential consumers to feed about 30,000 People
	22	Kms. MV wires and cables		Reconnection of 6 no. water supply pumping stations with 135 vol. capacity
	51	Kms. LV Cables		Reconnection of 1 hospital
	49	No. of M.V steel poles		Reconnection of 88 commercial consumers
	98	No. of L.V steel poles		Increase in supply to above consumers of 3350 MW hr per month
	991	No. of L.V wooden poles		
	13	No. of distribution transformers		
	16	No. of M.V Isolating Switch		
	40	No. of L.V Disconnecter		
	7	MVA Increase in system capacity		
Project covers supply and installation				
Project 1e: Rafah Gov. MV and LV Reconstruction	<b>Reconstruction of the MV and LV networks in Rafah Governorate:</b>		1,660,965	Re-connection of 3250 no. residential consumers to feed about 28,000 People
	24	Kms. MV wires and cables		Reconnection of 9 no. water supply pumping stations with 195 vol. capacity
	49	Kms. LV Cables		Reconnection of 2 hospitals
	35	No. of M.V steel poles		Reconnection of 34 commercial consumers
	88	No. of L.V steel poles		Increase in supply to above consumers of 2550 MW hr per month
	962	No. of L.V wooden poles		

	13	No. of distribution transformers		
	10	No. of M.V Isolating Switch		
	38	No. of L.V Disconnecter		
	6	MVA Increase in system capacity		
	Project covers supply and installation			
Urgent Material Supply for smaller reconstruction projects on existing network where work will be undertaken by GEDCO	<b>List of Materials urgently needed</b>		3,800,000	GEDCO's main warehouse was completely destroyed, including all stored electrical, steel materials, and electrical meters. With winter approaching and the subsequent load increase, these materials are urgently needed for use in normal and emergency maintenance works.
	17	Kms. MV wires and cables		
	60	Kms. LV Cables		
	30	No. of M.V steel poles		
	50	No. of L.V steel poles		
	700	No. of L.V wooden poles		
	45	No. of distribution transformers		
	50	No. of M.V Isolating Switch		
	90	No. of L.V Disconnecter		
		<b>Supply Tools</b>		
	<b>Supply PC Hardware</b>		60,000	
Operating Costs		PMU office rental costs	20,000	1- Operating costs of the PMU
		PMU office running costs	20,000	
	10,000 \$	PMU Office equipment and furniture	20,000	
	83,000 \$	- 2 x vehicles	40,000	2- Follow up the running and future projects by WB and donors.
	47,000 \$	Provision of Warehouse/Storage Space	100,000	3- Because of the destruction of GEDCO's main warehouse and the difficulty of building a new warehouse at the moment, rental of stores to save GEDCO materials and grants materials was discussed.
<b>TOTAL (US\$)</b>			<b>15,000,000</b>	



## Annex 5 – Revised Fiduciary, Procurement and Safeguards Arrangements

### Financial Management and Disbursement

1. The Financial Management Capacity Assessment for the Project was carried out under the original GENRP and updated during AF preparation. The assessment evaluated the institutional capacity of the PMU to implement Financial Management (FM) and disbursement under Bank Guidelines and reviewed the organizational structure for implementing the project. Furthermore, the assessment evaluated FM risks and made recommendations on mitigation measures. The proposed AF will be implemented by the existing PMU at PEA, which is currently handling the implementation of the ongoing Bank and donor-financed Electricity Utilities Management Project (EUMP) and original GENRP. The PMU operates under the umbrella of the PEA and is fully staffed with a financial management team experienced in implementing similar projects under the Bank's FM guidelines, policies and procedures. Therefore, the PMU will be responsible for handling the FM and disbursements aspects for this AF, including: preparing and issuing the annual work program and operating budgets, and all the progress and financial reports, the Interim Financial Reports (IFRs) and annual audited financial and technical audit reports.

2. The assessment concluded that the overall project risk from a financial management perspective is **Substantial** after mitigating measures, due to the nature of the project which entails large technical contracts for the rehabilitation of the electricity networks and expansion of new network facilities and other electricity tools and equipment for GEDCO. The risk of the execution of project activities in Gaza where access by the PMU might be restricted due to the security situation also presents a risk in terms of reasonable implementation progress and/or for goods not actually supplied and installed.

3. The following is a summary of the agreed actions/mitigation measures:

- Disbursements and financial management aspects will be centralized at the PMU. The PMU will have the sole responsibility of disbursing project funds to suppliers, contractors and consultants.
- No funds will be transferred to GEDCO;
- To ensure that project funds will be used for the intended purposes only, project payments will be reviewed and approved by the PEA's technical team based in Gaza, i.e. they and GEDCO will certify all payment requests submitted by contractors/suppliers as a sign that payment request are in line with physical progress for works contracts and for goods actually supplied and installed. Then the payment requests will be forwarded to the FM staff at the PMU for review and the Ministry of Finance's (MoF) financial controller for pre-verification, before signing by the authorized signatories.
- Private external auditor will be hired on a competitive basis to perform reviews and annual financial and technical audits for the Project, in accordance to Terms of Reference (ToRs) acceptable to the Bank. In this context auditors should hire/use relevant technical specialists as needed to perform the technical audit. The audit TOR will assess the effectiveness of internal controls within the PMU/PEA;

- A segregated Designated Account will be opened by the MoF at Bank of Palestine (Ramallah), and will be used solely for this particular project;
- The Grant financial transactions will be maintained separately in the existing accounting software through the opening of a separate cost center for each financier to account and report for the grant's transactions. Complete supporting documentation for each contract, including signed contracts, invoices and other related supporting documents will be maintained by the PMU in an orderly manner, readily available for audit.
- The manual of financial procedures will be updated to include FM procedures and internal controls related for AF.

4. **Accounting & Recording:** A fully automated accounting system is in place. The system is capable of capturing all project related transactions and has the flexibility to permit the establishment of separate cost centers within the main system, to track and report upon the use of project funds for each financier. The system was designed to generate segmental reports based on donor, component, sub-component and category. The existing accounting system, Oracle, will be used to account for, record, report and monitor project accounts. Separate financial records will be maintained for this AF.

5. **Budgeting and planning:** The PMU will maintain project budget and detailed disbursement plans, the annual budget will be developed based on an initial procurement plan and revised upon need and will be analyzed annually and semiannually as part of the IFR, justification for variances noted will be reported as well as part of the IFR.

6. **Financial Control:** The financial control function is covered by the MoF's Financial Controller based at PEA. According to the MoF's financial controller's mandate, all project activities implemented by line ministries need to be pre-verified and cleared by the financial controller based in that line ministry before being processed for payments. Therefore, the proposed project's related transactions will be subject to MoF's financial control pre-verification as well. The Financial Controller's function is important to insure that Project activities are in compliance with the Financial Procedures Manual and donors' guidelines as well as compliant with internal control mechanisms.

7. The proposed project's related transactions will follow strict financial procedures and internal controls to ensure that funds are used only for intended purposes and for financing eligible expenditures. The controls procedures include project payments which will be: (i) reviewed and approved by the PEA technical team based in Gaza, i.e. they will certify all payment requests submitted by contractors/suppliers as a sign that payments are linked to activities that are in line with physical progress and for goods actually supplied and installed; (ii) reviewed by the PMU Procurement Specialist, Project Director and Financial team for approval; (iii) reviewed by the MoF Financial Controller; and (iv) each payment will be signed by two authorized signatories. All project FM procedures and internal controls will be included in the updated FM manual included in the Project Operational Manual.

8. **Flow of Funds:** A US\$ Designated Account (DA) will be opened by the MoF under the central treasury system at the Bank of Palestine and will be operated and managed by the PEA through the PMU. Deposits into, and payments from the DA will be made in accordance with the

provisions stated in the financing agreements and as outlined in the World Bank “Disbursements Guidelines for Projects”.

9. The PMU will have the sole responsibility of disbursing on behalf of the project to suppliers, contractors, consultants. No funds will be transferred to GEDCO. On a monthly basis, the PMU Finance department should reconcile the project bank accounts statement with client connection and with the PMU books of records to ensure that all receipts and payments are properly monitored. Reconciliations will be reviewed by the MoF Financial Controller. All reconciling items (if any) should be listed, explained and followed up on. Copies of the reconciliation together with the account bank statement should be kept in the project files.

10. **Financial Reporting:** The PMU will prepare semiannual Interim un-audited Financial Report (IFR). IFR shall be submitted to the Bank not later than 45 days after the end of the reporting period. IFR would be comprehensive and would cover all aspects of the project including all sources of financing and not only the portion related to the World Bank, and as part of the overall report separate reporting for each financier will be provided. The IFRs will be comprised of: (i) Statement of Sources and Uses of Funds for the period and cumulatively by donor and by category; (ii) Uses of fund statement by project components for the period and cumulatively by donor along with explanations of significant variances between budgeted and actual amounts, and cash balances of the project; (iii) Statement of Designated Account reconciling period-opening and end balances; (iv) Statement of project commitments, i.e., the unpaid balances under the project’s signed contracts, and in addition to the reports; and (v) a fixed assets/work in progress report indicating all relevant information (such as description, location, quantity, serial number), along with a Physical Progress Reports which include narrative information linking financial information with physical progress, and highlighting issues that require attention. The IFR would be comprehensive and would cover all aspects of the Project including all sources of financing and would provide additional reporting for each financier separately. Draft IFR forms were communicated and discussed with the Project team during project preparation.

11. **External Audit:** The project financial statements will be audited annually by a qualified independent auditor acceptable to the Bank in accordance with internationally accepted auditing standards and TOR acceptable to the Bank. The PMU in coordination with the MoF will be responsible for preparing the TORs for the auditor and submitting them to the Bank for clearance three months after the project’s effectiveness. The external auditor shall be engaged not later than seven months after project effectiveness. The audit report will be sent to the Bank not later than six months following the end of the project’s fiscal year. The cost of the audit will be financed from the project.

12. The audit will be carried out in accordance with International Standards on Auditing and according to TORs acceptable to the Bank. In addition to financial audit auditor is expected to perform technical audit on an annual basis, in this context, auditors should use relevant technical specialists as needed to perform the technical audit in accordance to ToR acceptable to the Bank.

13. In addition to the audit report, the external auditors will be expected to prepare a Management Letter giving observations and comments, and providing recommendations for improvements in accounting records, systems, controls and compliance with financial covenants in the Bank Trust Fund Grant Agreement.

14. The audited annual project financial statements will be publicly disclosed according to the Bank's disclosure policy. Annual Audited financial statement for GEDCO along with management letter will be required to be submitted to the Bank not later than six months after year end. GEDCO audited financial statement shall provide financial information on the donations received from the Bank as well as other financier under this project by activity i.e. goods, works, and assets. GEDCO financial statement along with management letter will be reviewed by the Bank.

15. **Training and Implementation Support:** The Bank will provide training to the PMU staff on Bank FM and disbursement guidelines and procedures and will provide FM implementation support during project supervision.

16. **Fixed Assets and Contracts Registers:** Fixed Assets Registers will be maintained by the project PMU, regularly updated and checked. Contracts Registers will also be maintained for all contracts.

### **Disbursements**

17. The DA ceiling for the AF will be US\$1 million. Subsequent disbursements into the DA will be based on Statement of Expenditures (SOE), and accompanied with Withdrawal Applications and copies of records evidencing eligible expenditures for payments for (a) civil works against contracts valued at US\$300,000 or more; (b) goods and non-consulting services against contracts valued at US\$200,000 or more; (c) consulting firms against contracts valued at US\$100,000 or more; and (d) individual consultants against contracts valued at US\$50,000 or more. The supporting documentation for requests for direct payment should be records evidencing eligible expenditures (copies of receipt, supplier's invoices).

### **Procurement:**

18. **Procurement** for the AF will follow the same arrangements in place for the original project. In particular, procurement of goods, works, and non-consulting services will be carried out in accordance with the *Guidelines: Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers*, (World Bank, January 2011, revised July 2014). For the selection of consultants, *Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers* will be used (World Bank, January 2011, revised July 2014). *Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants,*" shall apply to the AF (World Bank, October 15, 2006, revised January 2011).

19. The overall responsibility for procurement shall rest with PENRA, through the existing PMU which has been handling the day to day implementation of the project, including procurement. Currently a new procurement specialist, who used to work as a procurement assistant, is handling procurement with support from the project manager in Gaza. The PMU procurement capacity should be strengthened in order to meet the additional implementation requirements for the additional financing, although a procurement assistant was newly hired to help the new procurement specialist. Current procurement performance is rated "Satisfactory". However, continued restrictions imposed on access and movement of people and goods into Gaza are expected to delay or hinder the supply of equipment, spare parts, and other materials

necessary for the execution of the rehabilitation works and may therefore cause substantial implementation delays and cost overruns.

20. Given the emergency nature of this AF, the following simplified procurement procedures for works and goods and selection procedures for consultants' services shall apply:

#### **A. Works and Goods**

21. **Direct Contracting.** Direct contracting for the procurement of works and goods (as per paragraph 3.6 (a) and (e) of the Procurement Guidelines) may be used to extend an existing contract or award new contracts. For such contracting to be justified, the Bank should be satisfied that the price is reasonable and that no advantage could be obtained by further competition.

22. **Shopping.** Shopping in accordance with paragraph 3.5 of the Procurement Guidelines may be used for procuring readily available off-the-shelf goods of values less than US\$200,000, or simple works of values less than US\$500,000. The PMU shall solicit at least three price quotations<sup>1</sup> for the purchase of goods, materials, small works, or services (other than consulting services), to formulate a cost comparison report.

#### **B. Consultants' Services**

23. **Single-Source Selection.** Single-source selection of consulting firms and individuals (paragraphs 3.10 (b) and 5.4, respectively, of the Consultant Guidelines) may be used only if it presents a clear advantage over competition for the required consulting services.

24. **Advertising/Shortlists.** For assignments that are estimated to cost less than US\$100,000, advertisement is not mandatory as long as a shortlist of at least three qualified firms is established.

#### **Procurement Plan**

25. Under works, the AF will finance the procurement of reconstruction of MV and LV networks in five different governorates in Gaza and the rehabilitation of GEDCO main warehouse. Under goods, supply of MV wires and cables, Supply of LV cables, supply of steel poles and distribution transformers, Supply of MV isolation switches and LV disconnectors, supply of two vehicles and supply of office equipment. In addition to technical and financial audits under consultants services.

26. The PMU prepared a procurement plan for the AF, in consultation with GEDCO. The procurement plan was agreed with the Bank and is summarized below. It specifies the procurement packages/consultancy assignments, estimated cost, methods and schedule, taking into consideration the project implementation schedule. The procurement plan will be updated at least annually or as needed to reflect actual project implementation needs.

#### ***Summarized Procurement Plan***

##### ***I. General***

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<sup>1</sup> The PMU shall use the sample request for quotations for goods and simple works, which are currently being used under the original project.

1. **Project Name:** Additional Financing for Gaza Electricity Networks Rehabilitation Project

2. **Period covered by this procurement plan:** first 18 months

**II. Works and Goods**

27. **Procurement Methods and Prior Review Thresholds:** Procurement Decisions subject to Prior Review by the Bank as stated in Appendix 1 to the Guidelines for Procurement:

Category	Method of Procurement	Threshold (US\$ Equivalent)	Prior Review Threshold (US\$ Equivalent)
Works	NCB	<5,000,000	First contract
	Shopping	<500,000	None
	Direct Contracting	No threshold	All contracts
Goods	ICB	No threshold	First contract and thereafter all contracts above \$1,000,000.
	NCB	<500,000	First contract
	Shopping	<200,000	None
	Direct Contracting	No threshold	All contracts

**Summary of the Procurement Packages planned during the first 18 months after project effectiveness:**

**Works:**

1	2	3	4	5	6	7	8
Ref. No.	Description	Estimated Cost US\$ (,000)	Procurement Method	No. of lots	Domestic Preference (yes/no)	Review by Bank (Prior / Post)	Estimated BDs issue date
1.	Installation and civil works for the reconstruction of LV and MV networks	2,000	NCB	multiple	No	Prior	May 2015
2.	Minor repairs to GEDCO warehouse	100	S	1	Yes	Post	Dec 2014
	<b>Total</b>	<b>2,100</b>					

**Goods:**

1	2	3	4	5	6	7	8

Ref. No.	Description	Estimated Cost US\$ (,000)	Procurement Method	No. of lots	Domestic Preference (yes/no)	Review by Bank (Prior / Post)	Estimated BDs issue date
1.	Supply of transformers, cables, poles, etc. for the reconstruction of LV and MV networks	8,620	ICB	multiple	No	Prior	Oct 2014
2.	Supply of transformers, cables, poles, etc. for repair and maintenance of existing networks	3,800	ICB	multiple	No	Prior	Dec 2014
3.	Supply of electrical works tools	280	NCB	1	No	Prior	Nov 2014
4.	Supply of PMU Gaza Office Vehicles	40	S	1	No	Post	Dec 2014
5.	Supply of Office Furniture	20	S	1	No	Post	Dec 2014
6.	Supply of Computer Hardware Equipment	60	S	1	No	Post	Dec 2014
	<b>Total</b>	<b>12,820</b>					

### III. Selection of Consultants

28. **Selection Methods and Prior Review Thresholds:** Selection decisions subject to Prior Review by Bank as stated in Appendix 1 to the Guidelines Selection and Employment of Consultants:

Category	Selection Method	Threshold (US\$ Equivalent)	Prior Review Threshold (US\$ Equivalent)
<b>Consulting Services Firms</b>	QCBS/QBS	No threshold	First contract selected under each of the two methods and thereafter all contracts above \$500,000
	FBS/QQS/LCS	<200,000	First contract selected under each of the three methods
	Sole Source	No threshold	All contracts
<b>Individuals</b>	IC	No threshold	All contracts above \$200,000
	Sole Source	No threshold	All contracts

29. **Short list comprising entirely of national consultants:** Short list of consultants for services, estimated to cost less than US\$300,000 equivalent per contract, may comprise entirely

of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

**Consultancy Assignments with Selection Methods and Time Schedule:**

<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>
<b>Ref. No.</b>	<b>Description of Assignment</b>	<b>Estimated Cost US\$ (,000)</b>	<b>Selection Method</b>	<b>Review by Bank (Prior / Post)</b>	<b>Estimated RFP issue date</b>
1.	Financial Audit	40	LCS	Post	Nov 2015
	<b>Total</b>	<b>40</b>			

**Social and Environmental Safeguards**

30. The sub-projects and activities planned for the additional financing are expected to have minor negative environmental impacts such as dust, noise, and disruption of traffic and services. Those are easily mitigated and adequately addressed in the environmental management plan (EMP) of the parent project’s safeguards instrument (ESMF) that has been prepared, consulted, and publically disclosed in 2011. The project activities include purchase and installation of new transformers, and likely disposal of old and damaged transformers. GEDCO does not use transformer oil containing Polychlorinated biphenyls (PCBs), however if any transformer containing PCBs to be discarded and disposed of, the Palestinian Energy Authority (PEA) and the Beneficiary (Gaza Electricity Distribution Company) will handle and dispose them safely and properly according to PEA PCB management policy annexed to the ESMF of the parent project.

31. Construction debris removal is now in process in many places in Gaza, largely guided by UN agencies. Although construction debris is expected to be largely recycled for residential and road construction, new materials will be used for the civil works in this project. Similarly, UN Mine Action Service (UNMAS) as well as other humanitarian agencies are responsible for the safe removal of unexploded ordnances (UXO) and other explosive materials. Written documentation demonstrating completion of UXO clearance will be required as part of sub-project screening processes prior to commencement of civil works, as will be amended in relevant sections of the Operations Manual.

32. Implementation of Gaza Electricity Network Rehabilitation Project (GENRP) as well as the predecessor operation, the Electrical Utility Management Project (EUMP), both implemented by PEA, and GEDCO is a beneficiary from both projects (solely from GENRP) has been proceeding successfully. Both PEA and GEDCO demonstrated adequate capacity of managing environmental risks and implementing the environmental management plans (EMP) successfully. Their performance on safeguards compliance for GENRP project was rated satisfactory for the entire duration of the project. The increased workload on PEA staff from Gaza (and other) projects warrants that PEA will enhance their in-house capacity for managing the environmental and social risks of the project and reporting to the Bank on those issues systematically.

33. The social impacts of this project are generally positive and are mostly related to the rehabilitation of networks and purchase of supplies, which will allow for increased electricity availability to communities and other basic service providers. The potential negative impacts of the project are in general limited to the project rehabilitation phase and may include noise, dust,



obstruction of access to business and houses, etc. The Bank's Policy on Involuntary Land Acquisition and Resettlement (OP 4.12) does not apply as project level works are being carried out on public lands and not affecting private lands nor livelihoods (either permanently or temporarily). Works involving rehabilitation as part of GENRP AF will not be on sites where internally displaced people (IDPs) are present. Any rehabilitation/reconstruction that is potentially on-sites with internally displaced peoples will be excluded. Formal consultations were held across each of the five Gaza governorates. Information on activities financed under this AF will be communicated to the beneficiary population by the following process: Social and environment documentation will continue to be made available locally in easily accessible locations in the local language (Arabic). Under GENRP, a complaints mechanism (Grievance Redress Mechanism or GRM) exists. GEDCO has assigned staff to document and respond to complaints and ensured general community awareness of where to make complaints during consultations and a public awareness campaigns for the project. However, most complaints are responded to verbally and not documented. PENRA will work with GEDCO to ensure the GRM is accessible to the population and documentation of all complaints as part of the Additional Financing.

## Annex 6 – Network Damage Assessment and Estimated Cost<sup>2</sup>

No	Description	Total (US\$)	Comments
1	Main warehouse materials damages	13,195,087	GEDCO stored in this warehouse all the spare parts needed to repair and maintain the distribution grid (steel/wooden poles, transformers, cables and wires, switches, etc.). Goods and materials needed to undertake emergency repair and strengthening of the distribution grid were therefore stored in this building. The entire inventory has been destroyed.
2	Field steel and electrical materials	17,132,035	This category includes all distribution equipment required to reconstruct damaged network infrastructure (poles, transformers, switchgears, medium voltage (MV) and low voltage (LV) cables, switches, fuse holders, overhead line accessories, concrete for steel bases. The number of items destroyed during the conflict has been identified for each municipal area/governorate.
3	Gaza City industrial area	1,680,470	This category covers the specific equipment required for industrial applications mainly under MV (transformers, switches, switchgear and distribution boards, MV cables and accessories, electrical buildings). The industrial area suffered heavy losses.
4	Installation & connection	3,426,407	This category refers to the workload needed to install equipment and connect clients. In large part it would be done locally.
5	Vehicles	177,353	The vehicles are used by GEDCO's technical staff for customer services or for operating the warehouse and overseeing distribution network repair, maintenance and construction.
6	Buildings	1,764,706	While the main warehouse was entirely destroyed, GEDCO branch buildings suffered partial damages.
7	Consumer meters and cables	2,124,000	This category contains all the equipment needed for connecting consumers to the LV grid (prepaid meters, client cables, meter cabinet and accessories).
9	Billing	3,000,000	Given that the meters have been destroyed, GEDCO will be unable to invoice most of its customers for their past consumption.
<b>Total</b>		<b>42,500,058</b>	

<sup>2</sup> Damage Assessment Report, Electricity Distribution Sector (Gaza August, 2014), Gaza Electricity Distribution Company (GEDCO).

## Annex 7 – Comparison of Supply Options – Network Reconstruction vs Distributed Generation.

1. Electricity supply is a public good upon which Gross Domestic Product (GDP) generation and economic growth are predicated. Supply of electricity to Gaza’s consumers is a fundamental necessity for socio-economic development, poverty alleviation, jobs growth and shared prosperity.
2. Several options exist for electricity supply to Gaza’s population. This analysis considers alternative options and identifies the optimum from a technical and economic point of view. It uses a “with” and “without” comparison of the option which is technically optimal, comparative to its most likely alternative.
3. The project development objective is restore and improve basic electricity services in Gaza in order to provide basic electricity service. To this end, the technical option described in this project paper involves supporting the minimum set of investments that would allow domestic customers and essential social infrastructures to regain access to electricity. Based on the damage assessment report, this minimum set of investments would consist of reconstruction of Gaza’s electricity distribution network.
4. To provide basic electricity service, an alternative option to the reconstruction and rehabilitation of the grid, associated with centralized local generation, is to move towards decentralized and fully distributed generation using diesel generators.<sup>3</sup> However, there are two main drawbacks associated with this alternative option: (i) the levelized cost per kWh is 5 to 10 times higher than the cost of the electricity that would be centrally produced and distributed through a grid and (ii) the negative environmental effects (noise and air) due to the use of liquid fuels.
5. As a result, rebuilding the distribution grid is the preferred option for restoring access to electricity for essential social infrastructures (hospitals, water supply, wastewater treatment) and for residential consumers.
6. **“With” or “without” comparison.** As shown in the economic analysis below, the total capital cost of using alternative distributed generation is higher than the cost of reconstructing and rehabilitating the grid.

Costs	Without case 1 Kw generator	With case 200 MW generator
Capital cost (\$/kW)	800	490
O&M (\$/kWh)	0,04	1,5
Fuel cost (\$/kWh)	0,6	0,10

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<sup>3</sup> The use of rooftop PV would probably make sense to reduce the need for centralized generation but this would only be a partial solution, since a distribution backbone would be required for backup reasons.

Purely on a capital cost basis, the cost associated with the complete reconstruction of the distribution grid is US\$23 million.<sup>4</sup> Yet for Gaza, the additional capital cost associated with provision of electricity through distributed generation is:  $[(800-490) * 1000 * 200] - US\$ 23 \text{ million} = US\$59 \text{ million}$ . Moreover, while variable costs seem lower in the case of distributed generation, capital costs are incurred more frequently raising the overall levelized cost of electricity supply through distributed generation. Reconstructing the electricity distribution network is therefore the optimum technical and economic option for restoration of electricity supply throughout Gaza.

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<sup>4</sup> The cost of wiring is not factored since it is the same for the two cases.