



Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

Concept Stage | Date Prepared/Updated: 17-Mar-2018 | Report No: PIDISDSC23360



BASIC INFORMATION

A. Basic Project Data

Country West Bank and Gaza	Project ID P164412	Parent Project ID (if any)	Project Name Innovative Private Sector Development (P164412)
Region MIDDLE EAST AND NORTH AFRICA	Estimated Appraisal Date Apr 17, 2018	Estimated Board Date May 31, 2018	Practice Area (Lead) Finance, Competitiveness and Innovation
Financing Instrument Investment Project Financing	Borrower(s) Ministry of Finance, Palestinian Authority	Implementing Agency To be determined after competitive selection by the Ministry of National Economy	

Proposed Development Objective(s)

To improve economic opportunities and business entry for individuals and firms in the West Bank and Gaza.

Financing (in USD Million)

Financing Source	Amount
Special Financing	13.00
Total Project Cost	13.00

Environmental Assessment Category C-Not Required	Concept Review Decision Track II-The review did authorize the preparation to continue
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Other Decision (as needed)

B. Introduction and Context

Country Context

- 1. Despite a strong initial recovery following the 2014 war, growth slowed significantly in 2017.** Large inflows of aid for reconstruction in Gaza and a strong pick up in consumption in the West Bank enabled the economy to recover with growth in real Gros Domestic Product (GDP) reaching 3.4 percent in 2015, followed by 4.7 percent in 2016.



However, most recent data by the Palestine Central Bureau of Statistics (PCBS) indicates that growth levels dropped to 2.4 percent in 2017.¹

2. **The number of unemployed has been on the increase—which poses risks for peace and stability in the West Bank and Gaza.** According to data from the PCBS labor force survey for the third quarter of 2017, unemployment reached 29 percent—up from 28 percent in the third quarter of 2016. The rise was driven by an increase in Gaza where the rate stood at 47 percent in the third quarter of 2017, up from 43 percent in the same period in 2016. In the West Bank, unemployment remained almost constant at 19-20 percent. Another issue leading to unemployment—especially for youth—is the education system failing to match skills to the needs of the labor market. The unemployment rate for recent graduates (of tertiary and secondary levels) is 60 percent, and the female labor force participation is 19 percent, which is remarkably low even when compared to the MNA average of 21 percent in 2017, one of the lowest regional rates in the developing world.²
3. **Private investment levels in the Palestinian economy have been low at around 15 percent of GDP in recent years,** far below most middle-income economies. Moreover, it is concentrated in the less productive non-tradable sector, including internal trade activities and residential constructions. Foreign Direct Investment (FDI) inflows, which are positively correlated with productivity growth, have been only around 1 percent of GDP on average over the last decade.
4. **Long-lasting Israeli restrictions on movement, access and trade are important impediments to private sector activity and job generation in the Palestinian territories.** In total, the World Bank estimates that alleviating restrictions imposed by the Government of Israel could raise real GDP by some 36 percent in the West Bank and 40 percent in Gaza by 2025.³
5. **A weak, albeit improving, domestic business climate is also a major obstacle for private sector activity and development.** Productive investments are inhibited by a patchwork regulatory climate which has been vulnerable to capture by vested interests. The West Bank and Gaza ranked 114th out of 190 economies in the 2018 *Doing Business* report—26 spots better from the 2017 ranking (140th). Although access to finance is not seen as an impediment for large firms, it continues to be a challenge for small and medium Enterprises (SMEs) and informal firms. SMEs suffer from power cuts and costly back-up arrangements to secure critical basic services, particularly in Gaza.

Sectoral and Institutional Context

6. **Entrepreneurship culture is growing in the West Bank and Gaza with the startup business ecosystem focused on ICT.** Considering the movement and access issues existing in other sectors such as agriculture, early stage investors tend to focus more on tech startups at the expense of other sectors. The entrepreneurship ecosystem—that is the combination of culture, enabling policies, finance, human capital, product markets, and institutional support of startups businesses—is developing and evolving with more youth choosing entrepreneurship as a career path—but key constraints and gaps in the ecosystem are still crowding-out private capital from driving significant growth.
7. **Based on consultations with stakeholders of the ecosystem—several gaps and constraints have been highlighted that are stunting entrepreneurial growth.** The quality of human capital in the entrepreneurship ecosystem is low—including the skill-sets of entrepreneurs and those of the IT professionals playing key support roles. Financing is available in the ecosystem, but it is not widespread, and the pipeline of deal flow is weak. As was identified during the Bank's ongoing *Finance for Jobs* Series of Projects, there is organized funding at each of the key stages of the entrepreneurship lifecycle from at least one source, but often only one source. Angel investment is not organized or

¹ Based on data for the third quarter of 2017.

² World Bank FY18-20 Country Gender Action Plan for the West Bank and Gaza (data from 2016 WDI)

³ For more details on these estimates, see: <http://documents.worldbank.org/curated/en/952571511351839375/Prospects-for-growth-and-jobs-in-the-Palestinian-economy-a-general-equilibrium-analysis>



accessible to startups at seed / early stage. Palestinian entrepreneurs have limited access to markets for products. Many factors limit businesses from expanding beyond the domestic Palestinian market including the social and political climate, poor networks and linkages within accelerators and funds, and the perception that Palestinian products are of lower standards. The process of registering a business in the West Bank and Gaza is complicated, lengthy and unclear—with no automated business registration system. Many businesses in the West Bank and Gaza operate informally, sometimes as home-based businesses. These home-based entrepreneurs—many of which are women who do not have the opportunity to work outside—encounter significant regulatory barriers to formalization. Their inability to formalize transactions limits their size and growth.

Relationship to CPF

8. **This operation is well-aligned to the World Bank Group’s Assistance Strategy (AS) FY18-21** for the West Bank and Gaza, whose overarching objective is to create conditions that incentivize the private sector and simultaneously mitigate the risks faced while investing in a fragile and uncertain environment. This new AS—discussed in December 2017 by the WBG Board of Executive Directors—was shaped early in the drafting process by WBG President Kim, following his visit to the West Bank and Gaza from which he provided guidance that the Bank should prioritize innovative private sector-focused interventions with the Palestinians. This Innovative Private Sector Development operation (IPSD) is directly linked to the AS focal pillar, *setting the conditions for increased private sector investments and job creation*, as the operation will address the pillar’s proposed outcome by supporting reforms to create an environment where private sector investment and jobs can grow. The IPSD activities are each aligned to one of the AS pillar’s areas of engagement: i) increased ties to regional markets; ii) building skills for the private sector’s labor market needs; and iii) business environment reform.

C. Proposed Development Objective(s)

9. **PDO: To improve economic opportunities⁴ and business entry for individuals and firms in the West Bank and Gaza.**

Key Results (From PCN)

10. PDO Results Indicators

- I. Beneficiary individuals of improved economic opportunity (number, % women)
- II. Beneficiary firms of improved economic opportunity and business entry (number, % owned / managed by women)

D. Concept Description

11. **With gaps and binding constraints in the entrepreneurship ecosystem of the digital economy⁵ including in human capital, finance, product markets, enabling policies, institutional support, and connectivity⁶, the World Bank will support an intervention to alleviate these market failures.** This is an area of global growth, utilizing the development and utilization of digital platform technologies, including in the automation of business registration. It is

⁴ Economic opportunities involve access to resources such as: i) finance; ii) markets; iii) mentors; iv) skills; v) employment; and vi) streamlined formal business registration

⁵ The digital economy is a term for all of those economic processes, transactions, interactions and activities that are based on digital technologies. As such, it potentially involves all firms and sectors using these technologies, although it often focusses on web-based or web-enabled business models.

⁶ Connectivity refers to the strength of the network for entrepreneurship stakeholders across and within various clusters of the ecosystem (e.g., the West Bank, Gaza, the proximate Palestinian and Arab communities in the MENA region, diaspora Palestinians in the US, EU, UK, etc.)



skill and education intensive, but less capital intensive than others, and is far less likely to be impacted by the unique physical challenges of trade-exposed economic activity within the West Bank and Gaza. It leverages regional communities to access advanced technologies, both as a potential market for Palestinian intermediate digital outputs (e.g. coding, testing services etc.) but also as inputs to build the Palestinian entrepreneurial ecosystem (via mentoring, market connections, angel investment, etc.).

Component 1. Entrepreneurship Ecosystem Development

- i. Growing the connectivity of the Palestinian startup ecosystem
- ii. Removing obstacles to business entry for entrepreneurs

Component 2. Building an Outsourcing Hub in Gaza

Component 3. Project Management

SAFEGUARDS

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

B. Borrower’s Institutional Capacity for Safeguard Policies

N / A

C. Environmental and Social Safeguards Specialists on the Team

Helen Z. Shahriari, Social Safeguards Specialist
Zeyad Abu-Hassanein, Environmental Safeguards Specialist

D. Policies that might apply

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	No	
Natural Habitats OP/BP 4.04	No	
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	
Physical Cultural Resources OP/BP 4.11	No	
Indigenous Peoples OP/BP 4.10	No	
Involuntary Resettlement OP/BP 4.12	No	
Safety of Dams OP/BP 4.37	No	



Projects on International Waterways OP/BP 7.50	No
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Projects in Disputed Areas OP/BP 7.60	No
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E. Safeguard Preparation Plan

Tentative target date for preparing the Appraisal Stage PID/ISDS

Apr 18, 2018

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

N / A

CONTACT POINT

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Borrower/Client/Recipient

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Implementing Agencies

To be determined after competitive selection by the Ministry of National Economy

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TBC

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FOR MORE INFORMATION CONTACT

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APPROVAL

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