



Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 25-Nov-2019 | Report No: PIDC28110

**BASIC INFORMATION****A. Basic Project Data**

Country West Bank and Gaza	Project ID P172571	Parent Project ID (if any)	Project Name Technology for Jobs (P172571)
Region MIDDLE EAST AND NORTH AFRICA	Estimated Appraisal Date Jan 20, 2020	Estimated Board Date Mar 27, 2020	Practice Area (Lead) Finance, Competitiveness and Innovation
Financing Instrument Investment Project Financing	Borrower(s) Ministry of Telecommunications and Information Technology	Implementing Agency Ministry of Telecommunications and Information Technology	

Proposed Development Objective(s)

To increase economic opportunities in IT services by improving firm capabilities and developing a supportive ecosystem.

PROJECT FINANCING DATA (US\$, Millions)**SUMMARY**

Total Project Cost	10.00
Total Financing	10.00
of which IBRD/IDA	0.00
Financing Gap	0.00

DETAILS**Non-World Bank Group Financing**

Trust Funds	10.00
Special Financing	10.00

Environmental and Social Risk Classification

Concept Review Decision



Moderate

Track II-The review did authorize the preparation to continue

Other Decision (as needed)

B. Introduction and Context

Country Context

- 1. Economic momentum faltered at the start of 2019 and the economy is in a technical recession.** After two strong quarters at the end of 2018, preliminary data by the Palestine Central Bureau of Statistics (PCBS) show that the growth of real Gross Domestic Product (GDP) in the Palestinian territories contracted in the two consecutive quarters of 2019, first by 2.5 percent in the first quarter of the year compared to the previous quarter, then by an additional 2 percent in the second quarter of 2019 compared to the previous one.
- 2. Job creation has been sluggish, leaving unemployment high—and economic participation of women is deeply constrained.** Since the mid-1990s, the labor force has increased by nearly a million Palestinians; over the same period, the public and private sectors have only created half a million additional jobs.¹ This has resulted in stubbornly high unemployment, which as of the second quarter of 2019 was 26 percent across the West Bank and Gaza—and similar to the unemployment level in 2018. While male labor force participation in the West Bank and Gaza was 71 percent in 2016, female participation was 18 percent—lowest in the MENA region and a basket of comparable countries² have an average female labor force participation rate of 39 percent.³ Economic constraints on women in the Palestinian territories are thought to be the result of mobility restrictions that have an outsized impact on females.⁴
- 3. The Palestinian economy is lacking diversification amid severe restrictions on trade and access to resources; these restrictions also lead to uncertainty in the business climate.** Such resource and import / export constraints are leading to a continuing decline in the productive base of the economy. Over the last twenty-five years, the share of manufacturing in the economy has halved, while agriculture is only one third of its previous size.⁵ Regarding the business climate, Palestinian firms face formidable constraints to investment and job creation, although there has been some progress in this area. Productive investments are inhibited by a patchwork regulatory climate which has been vulnerable to capture by vested interests.⁶ While it is not seen as an impediment for large firms, access to finance continues to be a challenge for small and medium enterprises (SMEs) and informal firms. SMEs also suffer from power cuts and costly back-up arrangements to secure critical basic services, particularly in Gaza.⁷

¹ World Bank. (2017). "Palestine Prospects for Growth and Jobs.

² Jordan, Bosnia and Herzegovina, and Moldova

³ World Bank (2017) "Palestine Prospects for Growth and Jobs."

⁴ World Bank May 2017 Economic Monitoring Report to the Ad Hoc Liaison Committee

⁵ FY18-21 World Bank Group Assistance Strategy for the West Bank and Gaza

⁶ World Bank (2017) West Bank and Gaza Inclusive Diagnostic Note.

⁷ World Bank Group (2019) Doing Business 2020. 17th Ed. Washington, DC: World Bank.



Sectoral and Institutional Context

- In a context of severe restrictions and high trade logistics costs, IT services have provided an avenue for export growth.** While service exports have been on the rise in the past two decades in the West Bank and Gaza, at \$612 million in 2018 up from \$460 million in 2000, a disproportionate share of this growth - 28% - has been powered by ICT service exports.⁸ ICT service exports accounted for 15% of service exports in 2000, up from 0.6% in 2000, and stood at \$86 million in 2017.⁹ The Palestinian IT sector, a subset of the ICT sector¹⁰, has benefited from this growth in exports. More than 3,700 people are employed in the IT services sector, of which more than 2,679 people are employed in outsourcing. Palestinian IT and business process services industry output stood at US\$126 million in 2017,¹¹ growing at 6% annually since 2010.
- Some of this growth has been fueled by demand from multinational corporations (MNCs) with a growing footprint in the region but facing tight labor markets for engineers and computer scientists, coupled with an abundant labor pool in the West Bank and Gaza's IT sector.** Throughout the region countries have been adopting policies aimed at building innovation-driven economies. However, MNCs R&D is facing new challenges in the region due to labor shortages. To cope with the shortage of talent and reduce costs, MNCs resort to outsourcing¹² and offshoring solutions. At the same time, there is an abundant labor market for engineering and computer science in the West Bank and Gaza, with unemployment rates in those two professions being high. With more than 3,000 engineering and computer science graduates each year, in 2018 percentage of unemployment¹³ among computer sciences graduates has been 43% among males and 75% among females, and for engineering graduates was 39% among males and 69% among females. For context, the overall labor force size (age 15+) in the West Bank and Gaza was just over 1.2 million in the 2017 Census.¹⁴

Relationship to CPF

- The proposed Tech4Jobs Project is being designed to reflect the priorities of the Bank Group FY-18-21 Assistance Strategy (AS) for WB&G. On private sector-driven development and job creation, Tech4Jobs Project aims for an IT outsourcing industry that has potential to spur growth and improve employment outcomes for youth.** This project is particularly aligned with two areas of engagement from the AS. By exposing young Palestinian engineers to advanced research and development work at international businesses, industry-driven skills will be nurtured and sharpened through support of the project. At the same time, the project will help deepen linkages and business opportunities for the Palestinian ecosystem with the hubs of international businesses that are active in the region.

⁸ Note that trade data is available for ICT service exports, but not for IT service exports, a subset of ICT service exports.

⁹ World Bank, World Development Indicators

¹⁰ *ICT sector*: the production (goods and services) of an ICT industry must primarily be intended to fulfil or enable the function of information processing and communication by electronic means, including transmission and display.

¹¹ 102 million GBP

¹² *IT Outsourcing Statistics 2019 /2020* (<https://www.computereconomics.com/page.cfm?name=Outsourcing>) defines 11 functions that are frequently outsourced: 1. Application development outsourcing 2. Application management 3. Data center operations outsourcing 4. Database administration outsourcing 5. Desktop support outsourcing 6. Disaster recovery outsourcing 7. Help desk outsourcing 8. IT security outsourcing 9. Network operations outsourcing 10. System implementation/integration outsourcing 11. Web operations outsourcing

¹³ State of Palestine, Palestinian Central Bureau of Statistics, "Study on the gap between education and the labor market." 2019.

¹⁴ State of Palestine, Palestinian Central Bureau of Statistics, "Preliminary Results of the Population, Housing and Establishments Census 2017." 2018.



- 7. **The Tech4Jobs Project is being designed to target areas of the enlarged approach of the MENA Regional Update 2019 #OpenforBusiness—especially human capital development and digital transformation.** By helping young Palestinian engineers gain access to on-the-job learning opportunities in highly advanced companies, human capital development for the Palestinian IT sector would accelerate. Knowledge transfer could surge to recent Palestinian graduates and specifically those engineers working in Palestinian outsourcing companies.

C. Proposed Development Objective(s)

- 8. To increase economic opportunities in IT services by improving firm capabilities and developing a supportive ecosystem.

Key Results (From PCN)

- 9. Beneficiary individuals of improved economic opportunity
 - i. Number of engineers and IT professionals whose skills were upgraded through the project (number, % female, % youth)
- 10. Beneficiary firms of improved economic opportunity
 - i. Number of firms who benefited from the project’s capability-building initiatives
 - ii. Number of new providers of business, technology and training services to IT service companies established in the West Bank and Gaza
 - iii. Number of IT service firms’ contracts with international clients
 - iv. Number of international companies who are outsourcing or offshoring IT services to the West Bank and Gaza

D. Concept Description

- 11. **The project aims to shift the dynamic equilibrium of the Palestinian IT sector towards one of continuous upgrading of firm capabilities and employment growth.** It will do so by strengthening the supply of firm capabilities, demand from buyers and investors, and by stimulating the absorption of knowledge in the ecosystem.
- 12. **Project components include:**
 - i. Improving the capabilities of IT service companies
 - ii. Increasing global demand and investments in the IT services sector
 - iii. Strengthening coordination in the ecosystem
 - iv. Project management and monitoring

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts



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APPROVAL

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