# PROJECT INFORMATION DOCUMENT (PID)
# APPRAISAL STAGE

Report No.: PIDA31814

| | |
|---|---|
| **Project Name** | West Bank and Gaza: Finance for Jobs (P151089) |
| **Region** | MIDDLE EAST AND NORTH AFRICA |
| **Country** | West Bank and Gaza |
| **Sector(s)** | General industry and trade sector (20%), Vocational training (20%), SME Finance (20%), Other domestic and international trade (20%), Other non-bank financial intermediaries (20%) |
| **Theme(s)** | Other economic management (25%), Micro, Small and Medium Enterprise support (25%), Other Private Sector Development (25%), Trade fac ilitation and market access (25%) |
| **Lending Instrument** | Investment Project Financing |
| **Project ID** | P151089 |
| **Borrower(s)** | Ministry of Finance |
| **Implementing Agency** | MOF through a private sector implementing agent |
| **Environmental Category** | B-Partial Assessment |
| **Date PID Prepared/Updated** | 07-Nov-2015 |
| **Date PID Approved/Disclosed** | 07-Nov-2015 |
| **Estimated Date of Appraisal Completion** | 19-Nov-2015 |
| **Estimated Date of Board Approval** | 18-Dec-2015 |
| **Appraisal Review Decision (from Decision Note)** | |

## I. Project Context

### Country Context

The political situation in the Palestinian territories remains fraught with uncertainty, heightened by the recent 2014 violent conflict in Gaza. This has impacted an economy where growth has continued on a downward trajectory after peaking at 11 percent in 2011, reflecting also mounting fiscal difficulties (including decreasing donor assistance since 2009 to less than US$1 billion in both 2011 and 2012 and growing arrears to the private sector), and sharply deteriorating economic conditions in Gaza. Growth decelerated to 6 percent in 2012, which represented a 50% slowdown in GDP growth that year, eventually reaching approximately 2 percent in 2013. In 2014, the Palestinian economy entered into a recession, facing an average growth of -0.04%: 5.1% in the West Bank and -15% in Gaza. According to recent estimates, losses from the 2014 war amounted to over $4 billion, about 35% of the West Bank and Gaza's GDP. The worsening economic conditions in Gaza had also been exacerbated by the earlier closing of tunnels into Egypt (which had served as Gaza's main trade channels), leading to further electricity outages and fuel shortages.

This slowdown in growth has been accompanied by a rise in unemployment, which was estimated to be nearly 27 percent in the West Bank and Gaza in 2014 (17.4 percent in the West Bank; 42.8 percent in Gaza and up from an overall figure of 9% in 2000). The recently released Economic Monitoring Report to the Ad Hoc Liaison Committee (May 2015) estimates that the unemployment rate in Gaza is likely the highest in the world. Youth unemployment (ages 15 to 29) across the West Bank and Gaza has reached to nearly 40 percent, and is at 63 percent in Gaza. At 19 percent, the female labor force participation rate is low compared to the (already low) MENA average of 26 percent. The Palestinian public sector currently supplies 22 percent of the jobs in the West Bank and Gaza but cannot be expected to be a direct net contributor to employment growth in the future. Analysis by the Portland Trust, a non-profit establishment whose mission is to develop the private sector in the Palestinian territories, estimates that roughly 1 million jobs will need to be created by 2030 in order to reduce unemployment to 10 percent by 2030.

**Sectoral and institutional Context**

Private investment and private sector activity have remained low, concentrated mainly in low productivity sub sectors with weak employment growth and dampened by the faltering peace process and continued restrictions on movement, access, and trade. Most formal enterprises are at the micro or small end of the firm size spectrum (only 1 percent of establishments had 20 or more workers in 2013) together with a significant level of informality involving up to an estimated 140,000 workers.



The necessary private investment and growth in the industrial and high value added service sectors that would generate jobs and GDP growth has yet to materialize at a sufficient scale. Private investment has averaged only 15 percent of GDP over the past seven years, while foreign direct investment (FDI) has averaged only 1 percent of GDP. Gross capital formation as a percentage of GDP has dropped dramatically from 35% in 2000 to less than 15% in 2012. The manufacturing sector, which would be expected to be a key driver of job generation and growth, has stagnated since 1994. Its contribution to GDP declined 26 percent in the last decade, while employment levels dropped 13 percent between 2001 and 2011. At the same time, high value-added sectors such as tourism or IT have not grown at sufficient pace to compensate for manufacturing declines. Stagnation in the agriculture sector is evidenced by a drop in productivity (output per worker) by 50 percent from 1995 to 2011, while employment in the sector during the same time doubled. Overall while the private sector share of total employment is estimated to have increased by 9 percent between 2000 and 2011, most of the jobs created have been in retail and non-tradable services which do not generate sufficient quality employment.

Recent World Bank Group analysis of the investment climate provides further evidence of the very difficult environment facing the private sector:

- The 2016 Doing Business Report recorded a drop in the West Bank and Gaza's overall position within the global rankings from 127 out of 189 economies to 129. The time, cost, and procedures to establishing a business in the West Bank and Gaza are prohibitive to the startup and entrepreneurial activity needed to fuel private sector growth. On the Starting a Business indicator, which is an important measure of the challenges entrepreneurs may face in launching a business, the West Bank and Gaza ranks 170 out of 189 economies (a change in rank of minus 11 from 2015), which is considerably lower than regional comparators including Morocco (43), United

Arab Emirates (60), and Jordan (88).

• The 2014 Investment Climate Assessment (ICA) “Fragmentation and Uncertainty” lists - as the persistently highest obstacles to private sector investment - political instability, access to electricity, informal sector practices, tax rates and access to finance. Recommendations include obtaining greater access to resource and markets, reduce trends of fragmentation and isolation, mitigating political risk and enhancing the private sector role in the economy, particularly through investment in skills, technology, entrepreneurship and innovation.

Limited private investment growth and the resultant suppressed demand for private sector labor have been accompanied also by constraints on the supply side. The recently completed “Dialogue for Palestinian Jobs Creation” (DPJC) initiative further highlighted not just the need to find innovative ways to mobilize new private investment in the face of a difficult investment climate “but, together with the SABER Report, also pointed to the skills mismatch in the labor market as a key constraint to employment outcomes, especially for youth and women. Evidence shows that even where there are available job openings, graduates often lack the skills or practical experience demanded by the private sector to effectively compete for and fill these available jobs. Though the Palestinian labor force is becoming more educated and has experienced a doubling of students every 15 years, labor force participation remains low. Youth and women experience particularly acute labor market outcomes. Unemployment is high amongst youth aged 20-24 years at 45.6%, with the highest unemployment rate among females with 13 years of education or more, at 47.1%. In addition to filling current openings, there is also a need to position the young workforce in terms of skills for jobs that will be created from future private sector investments.

In spite of the multitude of challenges both internal and external, the Palestinian private sector has displayed a level of resilience and spirit of entrepreneurship and the capacity for further growth and employment generation, particularly if this private investment is targeted towards selected sectors with job creation potential in current conditions There is evidence of this in the nascent, but growing entrepreneurship ecosystem, a growing ICT sector that is able to attract investment.



The following sectors: (i) agriculture; (ii) IT and digital entrepreneurship; (iii) tourism; (iv) construction; and (v) energy are identified as offering strong growth and job creation prospects, potentially generating around 40% of the jobs needed to reduce unemployment by 10% to 2030. While more than 20 sectors and sub-sectors were assessed, the five prioritized sectors were selected because they have the greatest capacity and potential to maximize immediate and long-term opportunities and spur broader multiplier effects in other sectors and across the economy under the existing policy framework.

## II. Proposed Development Objectives

The SOP development objective (PDO) is to mobilize private investment financing in high potential sectors and generate job opportunities for the West Bank and Gaza.

The F4J PDO is to establish the effectiveness of selected financial interventions.

## III. Project Description

**Component Name**

Entrepreneurship Ecosystem Matching Grant

**Comments (optional)**
Component 1 will finance the EE-MG, a matching grant (cost-sharing) facility targeting early stage investment funds seeking to build an investible pipeline of projects. The EE-MG will be a specialized fund designed to improve the number and quality of investment-ready entrepreneurship initiatives by enhancing the capacity of enterprises to absorb funding from the investment vehicles already in place. The matching grant funds would be used to finance business development services (BDS) for entrepreneurs in the range of US$10-50K.

**Component Name**
Capacity Building and Lessons Learned
**Comments (optional)**
The Capacity Building and Lessons Learned component consists of three subcomponents that will support measures to build capacity and prepare the market for the deployment of innovative financing instruments, including both the F4J project and future follow-on projects within the F4J Series of Projects (SOP). It will support the preparation needed for the deployment of a pilot DIB under F4J II, and will also aim to prime and test the market for the possible introduction of alternative financing instruments within future projects in the SOP, depending on the prospective pipeline of job-creating private investment.

**Component Name**
Project Management
**Comments (optional)**
This component will finance overall project implementation that will be overseen and managed by a Project Implementation Agent (PIA). The PIA would be recruited from the private sector (in conformity with WBG guidelines) under an Implementation Agreement (IA) between the PIA and MOF.



## IV. Financing *(in USD Million)*

| | | | |
|---|---|---|---|
| Total Project Cost: | 5.00 | Total Bank Financing: | 0.00 |
| Financing Gap: | 0.00 | | |
| **For Loans/Credits/Others** | | | **Amount** |
| Borrower | | | 0.00 |
| Special Financing | | | 5.00 |
| Total | | | 5.00 |

## V. Implementation

The overall project implementation arrangements would entail three levels. At the apex is the Ministry of Finance as the formal PA Project Counterpart (PC) to the project. The overall management of the project would be the responsibility of a Project Implementation Agency (PIA), together with a specialized DIB Advisor. In support of the overall implementation arrangements, a Public-Private Sector Advisory Body (PPAB) would be established comprising key government counterparts from the Ministries of Finance, National Economy and Labor, together with representatives from the financial and private sector.

In addition to the PC, the PIA and the DIB Advisor, there will be separate provider contracts generated for other activities to be undertaken under the project, namely for the capacity building and market readiness activities. Moreover, once the DIB investor subscription process is launched, a Special Purpose Vehicle (SPV) will need to be established by the private sector investors in the DIB. This would be done under F4J. Operationalization would occur once the outcome funding is in place with the approval of the F4J II project.

The PIA will be responsible for procurement, financial management, safeguards, M&E, including annual work planning and progress reporting and oversight of the DIB Outcomes Agreement (OA) that would be activated under the F4J II project. The PIA will be staffed accordingly and report to the PC. The PIA will be recruited from the private sector by way of an Implementation Agreement (IA) with delegated decision making authority for funds allocation based on acceptable methods and procedures of procurement and selection of consultants of the private sector and the commercial practices, acceptable to the World Bank



## VI. Safeguard Policies (including public consultation)

| **Safeguard Policies Triggered by the Project** | **Yes** | **No** |
|---|---|---|
| Environmental Assessment OP/BP 4.01 | x | |
| Natural Habitats OP/BP 4.04 | | x |
| Forests OP/BP 4.36 | | x |
| Pest Management OP 4.09 | x | |
| Physical Cultural Resources OP/BP 4.11 | | x |
| Indigenous Peoples OP/BP 4.10 | | x |
| Involuntary Resettlement OP/BP 4.12 | | x |
| Safety of Dams OP/BP 4.37 | | x |
| Projects on International Waterways OP/BP 7.50 | | x |
| Projects in Disputed Areas OP/BP 7.60 | | x |

**Comments (optional)**



## VII. Contact point

**World Bank**
Contact: Peter J. Mousley
Title: Program Leader
Tel: 5367+2935
Email: pmousley@worldbank.org

Contact: Abdalwahab Khatib
Title: Private Sector Development Spe
Tel: 5366+6515 /
Email: akhatib@worldbank.org

**Borrower/Client/Recipient**
Name: Ministry of Finance
Contact: Dr. Shukri Bishara
Title: Minister
Tel:
Email: mof@mof.ps

**Implementing Agencies**

Name: MOF through a private sector implementing agent
Contact: TBD
Title: TBD
Tel: 00000000000000
Email: mof@mof.ps

## VIII. For more information contact:

The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: http://www.worldbank.org/infoshop