INTEGRATED SAFEGUARDS DATA SHEET
CONCEPT STAGE

Report No.: ISDSC1140

Date ISDS Prepared/Updated: 24-Jul-2015

Date ISDS Approved/Disclosed: 11-Aug-2015

I. BASIC INFORMATION

A. Basic Project Data

Country:	West Bank and Gaza	**Project ID:**	P151089
Project Name:	West Bank and Gaza: Finance for Jobs (P151089)		
Task Team Leader(s):	Peter J. Mousley		
Estimated Appraisal Date:	03-Aug-2015	**Estimated Board Date:**	18-Sep-2015
Managing Unit:	GFM11	**Lending Instrument:**	Investment Project Financing
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%)		

Financing (In USD Million)			
Total Project Cost:	5.00	Total Bank Financing:	0.00
Financing Gap:	0.00		

Financing Source	**Amount**
Borrower	0.00
Special Financing	5.00
Total	5.00

Environmental Category:	B - Partial Assessment
Is this a Repeater project?	No

B. Project Objectives

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

C. Project Description

Private sector led growth is central to the socio-economic future of the West Bank and Gaza. The F4J project seeks to address selected constraints highlighted in consultations with stakeholders and in analysis conducted by the World Bank Group that are seen have significant impact on firm performance and the generation of job opportunities in sectors with more favorable prospects for private investment. These issues include: investment financing including a lack of high risk/early stage capital and a mismatch of skills between those demanded by the private sector and those possessed by graduates, including contributory low levels of investment in training and business upgrading. There is also a wide-range of investment climate constraints, although many of the more distortionary are beyond the PA to correct. Where realistic and complementary to the project's overall PDO and core activities, support will be considered to address those constraints affecting the targeted sectors.

This project would represent the first of a potential "Series of Projects" (SOP). In a SOP programmatic approach, a series of two or more projects are designed for implementation over time, building on lessons learned and achievements from previous project(s) in the series. A programmatic framework would allow for the significant capacity building and learning dimensions that are integral to the objectives of the F4J to be achieved and by taking a step-wise approach ensure that key risks entailed in the project objective are mitigated. Given the unique constraints facing the Palestinian economy and the limited results from existing interventions in support of private investment and job outcomes, this project will be framed as an innovation and learning initiative entailing high risks and potentially significant development returns.

The introduction of new financing instruments will commence under this first project with the piloting of a Development Impact Bond (DIB). Based on outcomes of market readiness and capacity building efforts, subsequent projects in the SOP could entail further DIB activity and\or the introduction also of alternative financing instruments such as "viability gap financing" to help address specific market failures that are curtailing private investment initiatives, expanded deployment of guarantee instruments and\or support to start-up equity facilities, depending on the prospective pipeline of job-creating private investments. The project will thus comprise three main components (i) targeted financing through the deployment of a DIB to support skills development amongst youth; (ii) capacity building to support the entrepreneurship ecosystem, build a pipeline of job-focused PPP investments, and enhance the ability of the Palestinian Authority to utilize innovative financing instruments; and (iii) project management, monitoring and evaluation (M&E) and technical services. These components and related subcomponents are summarized below and described further in the annexes.

Public Disclosure Copy

Component 1: Development Impact Bond for Skills Development and Training (US$ 3.5 million)

This component will focus on enhancing the skills of the Palestinian workforce, specifically youth aged 18 to 29 years, to meet private sector demand in support of job outcomes. Project preparation work has revealed that despite the large amounts donor funds invested in the skills development sector (to the tune of US $140m since 2001), there continue to be significant mismatches between the training that institutions in the West Bank and Gaza provide and what the private sector needs. Training institutions have traditionally emphasized academic and rote learning, rather than the practical, technical, and soft skills demanded by the private sector.

This work will be financed by a Development Impact Bond (DIB), risk capital that only receives a return if targeted outcomes are achieved (further details below and in the Annexes). The component will be approached using two phases: (i) capacity building to prepare the market for the DIB including the structuring of the instrument and raising investor finance and (ii) the delivery of the DIB itself to ultimately train and employ unemployed youth in the West Bank and Gaza.

Subcomponent 1.1: Phase I: Capacity Building and Public-Private Linkages for Skills DIB

In support of the DIB instrument, this first phase of the component will identify Palestinian institutions, training service providers, and private sector partners that could assist to close the skill gap in the market. This component would complement and build from the success of the World Bank's Education to Work Transition projects and other donor efforts in building capacity for service providers. This component will be supported by the IFC Education for Employment (E4E) initiative.

The capacity building would include activities such as the following:
- Supporting potential providers in developing training courses aligned with employer needs,
- Preparing specifications for job portal enhancement,
- Working with education institutions to improve linkages to the private sector,
- Raising awareness of the DIB program amongst education institutions and employers.

Subcomponent 1.2: Phase II: DIB Implementation and Delivery

The second phase would consist of the implementation DIB, including the delivery of training services and mechanisms to place unemployed graduates into jobs. It is envisaged that the DIB would support a portfolio of interventions, with the exact package of services for target beneficiaries depending on sector and individual needs:
- Soft skills training tailored to specific skill requirements identified by the employer;
- Technical and Vocational training, particularly focused around trade skills but also including higher level technical and specialist occupations;
- Sector specific training, particularly for high skill graduate employment opportunities;
- Internship/work placement support;
- English language training – particularly business and sector specific training;
- Entrepreneurship support, including business training and seed funding; and
- Mechanisms to link the number of individuals trained to employers willing to offer internships or jobs, with a partial salary contribution possibly offered.

Overall the DIB will support outcomes focused on primarily three dimensions: (i) reducing the skill mismatch in sectors where there is demand for and supply of workers, but workers do not have the skills and experience demanded by the market due to a mismatch between training supply and private sector needs; (ii) increasing the supply of qualified workers in sectors where there is some limited existing opportunities in specific areas (e.g. IT); and (iii) promoting entrepreneurship through relevant training.

Component 2: Market Readiness and Capacity Building (US$ 0.750 million)

Subcomponent 2.1: Entrepreneurship Ecosystem Support

While the innovation and entrepreneurship ecosystem in the Palestinian territories is nascent, it is currently gaining substantial momentum within the Palestinian private sector. Ranging from seed-stage accelerators, training boot-camps, entrepreneurship university courses, to the establishment of FDI and locally funded venture capital funds, expanding the segment of educated professionals who opt for income generation through entrepreneurship over the traditional job market, where employment opportunities are slim. As a response to, and to capture the momentum of, the rapidly growing sector local and international institutional investors were quick to commit $200M-$300M in capital to invest in Palestinian startups and SMEs, mainly – but not exclusively – in the technology sector. In recent years, several donors have also funded entrepreneurship-support programs. However a clear gap remains between donor-provided support services and the development of a steady stream of investment ready startups required to maintain the feasibility of venture and growth-capital funds. This resulted in significant locked up capital on the investor side, and non-sustainable entrepreneurship-support programs lacking a strong private sector orientation on the supply side.

In line with the overarching project development objective of mobilizing private investment towards the achievement of job outcomes, the proposed entrepreneurship support program aims to unlock the capital of VCs and growth capital funds (who often report weak demand and dry investment pipelines) by filling the post-accelerator funding gap through the development of angel investor groups and other forms of post-accelerator financing and mentorship, where venture capital and private equity investors typically would not engage. Key to the engagement of this stage of the investment cycle is partnership with private sector with a “committed investment”, to ensure sustainability and to avoid the replication of donor driven programs which lack private sector orientation and technical experience.

Subcomponent 2.2: Building a Pipeline of Job-Focused PPP Investments

The analysis conducted on the job\skills market reconfirms the very limited capacity for new employment in the absence of new private sector investment. Fostering these investments will be a sine qua non for any significant improvement. Initial analysis suggests that investment opportunities do exist, even within the currently constrained environment of the occupation, including in agro-processing, IT and light manufacturing - particularly in the case of this last sub-sector via existing industrial park\facility locations. Given the social externalities of job creation, there is a public good case to be made for support to be provided to enable these projects to proceed. In order to assess these benefits and the social rate of return they provide in order then to determine the merits of financial support, detailed feasibility work is required. This component will establish a facility to finance these assessments and assist the PA and private sector to build a pipeline of job-focused PPP investments. Subject to the outcome of the due diligence, a subsequent project could put in place a Viability Gap Financing (VGF) instrument to cover these public good costs, allocated through a competitive process.

A preliminary assessment of some of the potential candidate projects that could merit more in-depth assessment through the project facility has been undertaken during project preparation. For example, of particular note is a potential solar power sub-project investment at the Gaza Industrial Park. Initial assessment of job creation impact, financial projections and technical requirements, suggest that this has high short-term potential and, in view of this, additional further feasibility work will be undertaken by the World Bank energy team. Should this subsequently prove both developmentally and commercially viable, consideration could be given under the F4J to provide complementary financing necessary to bring this initiative to commercial and financial close. Additional private investment opportunities for assessment will be considered, during the life of the project, based on a “first come - call for proposal” procedure and subject to availability of project funding.

Subcomponent 2.3: Capacity Building to the Palestinian Authority

There are many market failures confronting the PA as it seeks to address job priorities in what is a uniquely fragile and conflict-affected economy. These are highlighted in the recent Investment Climate Report "Fragmentation and Uncertainty". Many of these failures lie beyond the control of the PA through traditional policy, legal and regulatory instruments, or at least these instruments offer only potential long-term solutions. To tackle the fragmentation and uncertainty, the PA needs to develop even strong and closer partnerships with the private sector. More specifically, it requires more innovative approaches to risk-sharing between the public and private sectors in order to finance new job creating investments.

Effectively assessing social and economic returns and structuring financial arrangements that provide both private and public sector with a more manageable distribution of the different project risks that confront the investment choice in the West Bank\Gaza is a specialized expertise. As such it commands a premium market price and is something that governments generally recruit on an as required basis. Notwithstanding this, governments need to have the capacity to manage such externally provided expertise and follow through on recommendations as to financing in ways that ensure fiscal prudence, balance the incentives to avoid the distortions that can undermine the social gains targeted and ensure effective implementation, monitoring and evaluation of activities and outputs\outcome.

The capacity of the Ministry of Finance in respect of the additional responsibilities that come with assessing, developing and potentially managing innovative financing instruments will need to be significantly augmented. The project will – building on a core private sector implementation platform detailed in section C below – provide a package of capacity building support comprising inter alia technical assistance (TA), training (TRN), secondments, internships and placements (SIP) and essential facilities, equipment and software (FES). Critical to the success of this initiative will be the readiness of the Ministry of Finance, in terms of organizational and staffing arrangements, to effectively absorb this proposed capacity building package.

Component 3: Project Management (US$ 0.750 million)

This component will support overall project implementation, including capacity building for the PIU and M&E. As detailed further below, to the maximum extent possible, the implementing agency and project implementation unit (PIU) will be recruited from the private sector (in conformity with World Bank guidelines) and will also provide oversight to sub-implementers of the project components (i.e. DIB, PPP pipeline development, Viability Gap Funding Facility). Particularly as the tracking of outcomes is critical to the DIB instrument, this component will also provide support to activities such as the building of a baseline, data collection, and outcomes measurement.

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

The project will be implemented throughout the West Bank and Gaza Strip. The project will likely be implemented predominantly in the West Bank in Ramallah and other localities where private sector activity is concentrated. However, the project is expected to support the development of one or more private sector investments in the Gaza Strip.

E. Borrowers Institutional Capacity for Safeguard Policies

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. For the overall management of the project there would be a Project Implementation Agency (PIA) and a specialized Management team for the Development Impact Bond (DIB Manager – DM).

In addition to the PC, the PIA and the DM, there will be separate provider contracts generated for other activities to be undertaken under the project, namely for contracts for DIB services and capacity building and market readiness activities. Moreover, once the DIB process is launched a Special Purpose Vehicle (SPV) will need to be established by the private sector investors in the DIB. These different aspects of the overall project implementing arrangements are all explained further in the Annex, which includes a schemata of the proposed implementation arrangements.

The PIA will be responsible for procurement, financial management, safeguards, M&E, including annual work planning and progress reporting and oversight of the IA Performance Contracts. The PIA will be staffed accordingly and report to the PC. A detailed TOR for the PIAU and different staff positions will prepared and recruitment commence in advance of project approval in order to accelerate progress towards project start-up readiness. In addition this component will finance the independent specialist that will provide "third party" assessment of outcome achievements for payment purposes.

As noted earlier, to the maximum extent possible, PIA will be recruited from the private sector – with delegated decision making authority for funds allocation and disbursement in accordance with performance-based contracts to be signed with the PA and in conformity with World Bank procurement and grant guidelines. An independent external agent will also be recruited to provide assessments of outcome achievements on the basis of which remunerations will be disbursed to the IAs. The following summarizes the main project functions of each of the parties referenced above:

Ministry of Finance: Key roles and responsibilities include:

- Project design and associated preparation work, including safeguard requirements;
- Stakeholder consultations and ongoing stakeholder coordination;
- Concluding Grant Agreement with the PIA;
- Funds transfer to the PIA and outcomes payments to the DIB Special Purpose Vehicle via the PIA
- Review and approval of Quarterly and Annual Work planning;
- Review and approval Quarterly Project Progress and Outcomes Reports.

Project Implementation Agent: Key roles and responsibilities include:

- Project procurement, including the DIB Manager;
- Financial management of project funds;
- Day-to-day project management, include work plan preparation;
- Technical Services – specifically for the investment pipeline and capacity building;
- Negotiation of the DIB with investors;
- Monitoring and Evaluation, including Progress Reporting.

DIB Manager: Key roles and responsibilities include:

- Design and Preparation of the DIB;
- Management of initial capacity building support to prospective DIB Service Providers;
- Management of the DIB Service Providers;
- Monitoring and Evaluation reporting on DIB implementation;
- DIB Services work planning and Progress and Outcome Reporting.

Special Purpose Vehicle: Key roles and responsibilities include:

- Mobilization of DIB investors and management of investment funds;

- Procurement of the DIB service providers;
- Payment of the services delivere d under the DIB from investor funds.

It should be noted that in the early phase of the project, prior to the establishment of the SPV, the PIA will be responsible for preparing, issuing and negotiating the RFP for the DM. The DM will be responsible for: (i) DIBService Provider Capacity Building; (ii) DIB Design and Procurement; (iii) DIB Service Providers.

The team anticipates that environmental and social safeguards staff will need to be hired (likely consultant(s)) within the private sector entity to assess and manage safeguards related issues. It is anticipated that safeguards capacity will need to be supported by Bank environmental and social safeguards specialists during the course of preparation and implementation.
It is not anticipated that safeguards staff would be needed for implementation of the second component of the project (Skills Development Impact Bonds) since this component will not trigger any Bank safeguards policies.

F. Environmental and Social Safeguards Specialists on the Team

Hana Salah (GSU05)

Tracy Hart (GENDR)

II. SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	This project is categorized as "B" due to potential adverse environmental and social impacts which are site-specific and reversible; thus easily remediable by applying appropriate mitigation measures. Given current information, these potential adverse environmental impacts may include the following: construction-related air, noise, and water quality issues; worker occupational health and safety. The first F4J in the SOP will continue to focus the menu of possible sub-projects. An ESMF has been prepared to cover the proposed technical interventions. The ESMF will be disclosed in-country and at the Bank's Infoshop prior to appraisal.
Natural Habitats OP/BP 4.04	No	The ESMF sub-project screening will exclude any sub-project which involves natural habitats.
Forests OP/BP 4.36	No	The ESMF sub-project screening will exclude any sub-project which involves forests.
Pest Management OP 4.09	Yes	The ESMF will screen to determine whether potential sub-projects are likely to include the purchase and/or use of pesticides, herbicides, rodenticides, etc. F4J sub-projects will not be excluded solely on their inclusion of pest management chemicals.
Physical Cultural Resources OP/BP 4.11	No	The ESMF sub-project screening will exclude any

		sub-project with potential impact on known physical cultural resources. Chance find procedures will be included in the ESMF in the case that physical cultural resources are discovered during sub-project implementation.
Indigenous Peoples OP/BP 4.10	No	There are no indigenous peoples in the service area.
Involuntary Resettlement OP/ BP 4.12	No	The ESMF will screen out any potential sub-projects which expect to have any OP 4.12 related issues. An RPF is not being prepared.
Safety of Dams OP/BP 4.37	No	This policy is not applicable.
Projects on International Waterways OP/BP 7.50	No	This policy is not applicable.
Projects in Disputed Areas OP/ BP 7.60	No	This policy is not applicable.

III. SAFEGUARD PREPARATION PLAN

A. Tentative target date for preparing the PAD Stage ISDS: 31-Jul-2015

B. Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing[1] should be specified in the PAD-stage ISDS:

ESMF clearance and disclosure is expected in the first week of August 2015.

IV. APPROVALS

Task Team Leader(s):	Name: Peter J. Mousley	
Approved By:		
Regional Safeguards Advisor:	Name: Maged Mahmoud Hamed (RSA)	Date: 03-Mar-2015
Practice Manager/ Manager:	Name: Simon C. Bell (PMGR)	Date: 11-Aug-2015

[1] Reminder: The Bank's Disclosure Policy requires that safeguard-related documents be disclosed before appraisal (i) at the InfoShop and (ii) in country, at publicly accessible locations and in a form and language that are accessible to potentially affected persons.