

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC18362

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 facilitation and market access (25%)
Lending Instrument	Investment Project Financing
Project ID	P151089
Borrower(s)	Ministry of Finance
Implementing Agency	Ministry of Finance
Environmental Category	B-Partial Assessment
Date PID Prepared/ Updated	29-Dec-2014
Date PID Approved/ Disclosed	20-Aug-2015
Estimated Date of Appraisal Completion	28-Aug-2015
Estimated Date of Board Approval	18-Sep-2015
Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

The political situation in the Palestinian territories remains fraught with uncertainty, heightened by the recent violent conflict between Israel and Gaza. Rival factions in the West Bank and Gaza announced a reconciliation agreement on April 23, 2014, leading to Israel's decision to suspend peace talks that began in July 2013 after a three-year hiatus. A new unity government was sworn in on June 2, 2014. The future of the peace talks remains uncertain, particularly given the recent conflict between the Government of Israel and Gaza.

Palestinian economic growth since the Oslo peace process has been volatile and characterized by bouts of growth fueled by donor financed consumption and an expanding public sector. Economic

growth has continued on a downward trajectory after peaking at 11 percent in 2011, reflecting continued and increasing political uncertainty, mounting fiscal difficulties, and sharply deteriorating economic conditions in Gaza. Growth decelerated to approximately 2 percent in 2013, the lowest in six years.

This slowdown in growth has been accompanied by a rise in unemployment, which was estimated to be 26.3 percent in the West Bank and Gaza for the second quarter of 2014. Youth unemployment (ages 15 to 29) across the West Bank and Gaza has reached to nearly 40 percent, and is a staggering 63 percent in Gaza. At 19 percent, the female labor force participation rate is low compared to the MENA average of 26 percent. 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. There is a significant level of informality and 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). 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. 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. Total unemployment has remained structurally high due to the inability of the public sector to absorb new labor market entrants and the private sector to create enough jobs to fill the gap. Most of the jobs created between 2000 and 2011 were mostly concentrated in retail and non-tradable services, which do not generate sufficient quality employment. The recent Investment Climate Assessment (ICA) analysis provides further evidence on the very difficult environment facing the private sectors.

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 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, and a number of larger Palestinian investors who have successfully attracted FDI in recent years. Over the past year, two economic initiatives have been designed and presented by key organizations in the West Bank and Gaza focusing on private sector development: “Beyond Aid”, a business-led plan put together by the Portland Trust in support of the Palestinian private sector; and the Office of the Quartet Representative (OQR) “Initiative for the Palestinian Economy” (IPE).

The Portland Trust analyzed potential returns on investments in a wide range of sectors in terms of both sustainable growth and job impact. The outcome of this analysis suggests that five high potential sectors could add up to around \$8 billion in incremental GDP and create more than 150,000 direct jobs by 2030. According to this analysis, 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. Analysis indicates these sectors 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.

Relationship to CAS

A new Assistance Strategy for the World Bank Group's work program in the West Bank and Gaza was endorsed by the World Bank Group Board on October 30, 2014. The Assistance Strategy, in line with the recently launched Palestine National Development Plan (PNDP) 2014-16, has two Program Pillars one of which is to "support private sector led growth that increases employment opportunities." This Assistance Strategy pillar directly supports the "Economic Development and Employment" theme of the PNDP.

The focus on private sector-led job creation, which is the fundamental objective of the Finance for Jobs (F4J) project, also reflects the growing World Bank Group wide attention to the need to link growth with the increased supply of sustainable job opportunities as discussed in the World Development Report 2013 entitled "Jobs". Building on this priority in the West Bank and Gaza, the Bank team has been conducting a series of dialogues with Palestinian stakeholders under a TA initiative "Dialogue for Palestinian Job Creation." The outcome of this exercise has significantly informed the design of the different components of the proposed project. The F4J project will also be complemented by other initiatives in the Palestinian territories in support of MSME finance, tourism, skills, and economic institutional strengthening.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

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.

Key Results (From PCN)

The proposed Key Performance Indicators (KPIs) at the PDO level are (i) private investment growth; (ii) job opportunities; (iii) business start-up and growth.

Proposed Intermediate Outcome Indicators (IOI) will include measures pertaining to access to finance, investment climate improvements and skills development.

III. Preliminary Description

Concept 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.

The proposed project will comprise three main components that utilize selected innovative financing and risk mitigation instruments to incentivize outcomes focused on job creation and private investment: (i) targeted financing to support job creating private sector investment activities; (ii) support for labor force and entrepreneurship skills development; and (iii) project management, monitoring and evaluation (M&E) and technical services. The components will entail a selection from the following options based on assessments of the relevance\impact, feasibility\capacity and private sector appetite\readiness to be undertaken during project preparation.

A. Financing and Risk Mitigation Component (this list is a menu. Not all will be included in the final project design):

- Grant Leveraging Facility for Infrastructure: This instrument would be used to finance infrastructure gaps that impact the commercial viability of particular private sector sub-projects where, under normal circumstances, the infrastructure would be provided as a public good. Left unfunded, these gaps would impact the overall viability of planned private sector projects. This window would operate in coordination with the ongoing MIGA political insurance program;
- Early Stage Seed Finance: This instrument would help fill the early stage seed financing gap and facilitate viable first mover projects into the entrepreneurship ecosystem. This can include financing for capital equipment and technology adoption (e.g. agriculture) and could potentially involve additional funding to an existing Innovation Fund that was launched in 2014. Recognizing that constraints to startups are not just financial, some resources could also be devoted to supporting the business innovation ecosystem.
- Risk Mitigation Instruments: Risk mitigation instruments are likely needed to further facilitate private investment and job creation. Possible areas include:
 - a. Political risk: Political risk insurance offered through MIGA to insure against non-commercial risk;
 - b. DIB instrument: Pertaining to outcome targets as agreed upon for the Development Impact Bond (DIB) instrument (see project component 2). Depending on final structure of the DIB, a guarantee may be needed to lower the overall risk profile and attract private investment.

Given the strong private sector and market character of the above instruments, sub-project identification (relevance, feasibility, private sector appetite etc), due diligence (regarding e.g. profitability, affordability, value for money and resultant pricing considerations), and subsequent implementation management is best assigned to an independent private sector entity. Access to the financing instruments to be made available under the F4J project would be through a competitive market-based mechanism based on eligibility and performance criteria based on the PDOs and intermediate outcome indicators.

B. Component 2: Skills and Entrepreneurship Development

This component will focus on potentially two dimensions: i) increasing the supply of qualified workers in sectors where there is excess of demand (e.g. tourism) (Type I), ii) reducing the skill mismatch in sectors where there is demand and supply of workers, but workers do not have the skills and experience demanded by the market (Type II). A third dimension - improving managerial skills (Type III) – is currently being financed through other donor matching grant programs .

It is currently anticipated, subject to further in-depth preparatory work that Type I and Type II interventions (primarily TA and training) will be financed through Development Impact Bonds (DIBs). In a DIB arrangement, all partners agree on a common goal (e.g. improve the skills and experience of graduates to increase their chances of getting a good job) and a set of quantifiable and verifiable measures to determine success. Private investors finance a program aimed at achieving these agreed outcomes. If the program is successful, then the outcomes funder (in this case donor partners) repays the investors.

Although the reasons for intervention are different in I and II, this component of the project will

address the problems through a similar set of services and activities, to be financed by the DIB, as summarized below:

- Skill component, which will provide training to acquire different types of skills;
- Practical component, which will provide training in the workplace in order to increase graduates chances to find employment after graduation (e.g. internships);
- Associated entrepreneurship and management training; and
- Curriculum improvement component.

This component will be designed and implemented in close partnership with, and building off, the IFC Education for Employment (E4E) initiative and methodology as well as ongoing skills initiatives operations being managed by the Social Protection and Education teams, as well as private sector initiatives such as the TAMAYAZ program.

C. Component 3: Project Management

This component of the project will require an overall project implementation and M&E capacity (PIU). Additionally - depending on the final configuration of instruments included in the project - implementing agency (IA) expertise and experience will be required in respect of whichever of the four distinct sub-components are included in final project design. The overall project will be managed by a small Project Implementation Unit (PIU) that reports to the PA. The PIU 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 PIU will be staffed accordingly and report to the PA Executing Agency for the project.

Regarding the IA: As noted earlier, to the maximum extent possible, the IA 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 governance arrangements and specifically the PA role in respect of the PIU and IA entities will be further developed during preparation with due consideration given to best practices in applicable international comparator models.

IV. Safeguard Policies that might apply

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

V. 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

VI. Contact point**World Bank**

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