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PALESTINE LIBERATION ORGANIZATION
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FOR A
FINANCE FOR JOBS PROJECT

November 25, 2015

Finance and Markets Global Practice
Middle East and North Africa Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective as of November 11, 2015)

Currency Unit = New Israeli Shekel (NIS)

NIS1 = US\$0.26

US\$1 = NIS3.91

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

BDS	Business Development Services
CBA	Cost Benefit Analysis
CCSA	Cross-Cutting Solutions Area
DA	Designated Account
D-Adv	Development Impact Bond Advisor
DIB	Development Impact Bond
DIME	Development Impact Evaluation Initiative
DM	DIB Manager
DPJC	Dialogue for Palestinian Jobs Creation
EE-MG	Entrepreneurship Ecosystem Matching Grant
E2WTP	Education to Work Transition Project
ESMF	Environmental and Social Management Framework
ESO	Environmental and Social Officer
FCS	Fragile and Conflict-affected State
FDI	Foreign Direct Investment
FES	Facilities, Equipment and Software
F&M	Finance and Markets World Bank Group Global Practice
F4J	Finance for Jobs
GA	Grant Agreement
GDP	Gross Domestic Product
GIZ	German Agency for International Cooperation (<i>Deutsche Gesellschaft Fur Internationale Zusammenarbeit</i>)
GRM	Grievance Redress Mechanism
IA	Implementation Agreement
ICA	Investment Climate Assessment
ICT	Information and Communication Technology
IFC	International Finance Corporation
IFR	Interim Financial Reports
IVA	Independent Verification Agent
KPI	Key Performance Indicators
MAS	Palestinian Economic Policy Research Institute
MDTF	Multi-Donor Trust Fund

MIGA	Multilateral Investment Guarantee Agency
MOFP	Ministry of Finance and Planning
MSME	Micro Small Medium-sized Enterprises
MTR	Midterm Review
M&E	Monitoring and Evaluation
OM	Operations Manual
PA	Palestinian Authority
PC	Project Counterpart
PDO	Project Development Objectives
PIA	Project Implementation Agency
PPAB	Public-Private Advisory Board
PE	Private Equity
PPD	Public Private Dialogue
PPP	Public Private Partnership
R&D	Research and Development
SABER	Systems Approach for Better Education Results
SD	Service Delivery
SF	Strategic Framework
SIB	Social Impact Bond
SO	System Oversight
SOP	Series of Projects
SORT	Systematic Operations Risk-Rating Tool
SP&L	Social Protection and Labor World Bank Group Global Practice
SPV	Special Purpose Vehicle
TA	Technical Assistance
TFGWB	Trust Fund for Gaza and West Bank
TVET	Technical and Vocational Training
T&C	Trade and Competitiveness World Bank Group Global Practice
VC	Venture Capital
WfD	Workforce Development

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WEST BANK AND GAZA
Finance for Jobs

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PAD DATA SHEET*West Bank and Gaza**West Bank and Gaza: Finance for Jobs (P151089)***PROJECT APPRAISAL DOCUMENT***MIDDLE EAST AND NORTH AFRICA***Finance and Markets Global Practice**

Report No.: PAD1306

Basic Information			
Project ID P151089	EA Category B - Partial Assessment	Team Leader(s) Peter J. Mousley, Abdalwahab Khatib	
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints [X]		
	Financial Intermediaries []		
	Series of Projects [X]		
Project Implementation Start Date 19-Dec-2015	Project Implementation End Date 31-July-2020		
Expected Effectiveness Date 31-Jan-2016	Expected Closing Date 31-Jan-2021		
Joint IFC Yes	Joint Level Joint Project - involving potential co financing with IFC (loan, equity, budget, other) or staffing		
Practice Manager/Manager Rolf Behrndt	Senior Global Practice Director Gloria M. Grandolini	Country Director Steen Lau Jorgensen	Regional Vice President Hafez M. H. Ghanem
Borrower: Palestinian Liberation Organization (for the benefit of the Palestinian Authority)			
Responsible Agency: Ministry of Finance and Planning			
Contact: Telephone No.:	Mr. Shukry Bishara (972-2) 297-8846	Title: Email:	Minister minister@pmof.ps
Project Financing Data(in US\$, millions)			
<input type="checkbox"/> Loan	<input type="checkbox"/> IDA Grant	<input type="checkbox"/> Guarantee	
<input type="checkbox"/> Credit	<input type="checkbox"/> Grant	<input checked="" type="checkbox"/> Other	
Total Project Cost:	5.00	Total Bank Financing:	5.00
Financing Gap:	0.00		

Financing Source		Amount				
Borrower		0.00				
Special Financing		5,000,000				
Total		5,000,000				
Expected Disbursements (in US\$, millions)						
Fiscal Year	2016	2017	2018	2019	2020	2021
Annual	0.335	1.260	1.450	1.150	0.610	0.195
Cumulative	0.335	1.595	3.045	4.195	4.805	5.000
Institutional Data						
Practice Area (Lead)						
Finance and Markets						
Contributing Practice Areas						
Trade and Competitiveness, Social Protection and Labor, Education, Macro-Fiscal, Energy, Transport and ICT						
Cross Cutting Areas						
<input type="checkbox"/> Climate Change <input checked="" type="checkbox"/> Fragile, Conflict & Violence <input checked="" type="checkbox"/> Gender <input checked="" type="checkbox"/> Jobs <input checked="" type="checkbox"/> Public Private Partnership						
Sectors / Climate Change						
Sector (Maximum 5 and total % must equal 100)						
Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %		
Education	Vocational training	15				
Industry and trade	Other domestic and international trade	15				
Finance	Other non-bank financial intermediaries	70				
Total		100				
<input checked="" type="checkbox"/> I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.						
Themes						
Theme (Maximum 5 and total % must equal 100)						

Major theme	Theme	%
Economic management	Other economic management	25
Financial and private sector development	Micro, Small and Medium Enterprise support	50
Financial and private sector development	Other Private Sector Development	25
Total		100
Proposed Development Objective(s)		
The F4J PDO is to test the effectiveness of selected financial interventions.		
Components		
Component Name	Cost (US\$, millions)	
Entrepreneurship Ecosystem Matching Grant	1.600	
Capacity Building and Lessons Learned	2.175	
Project Management Component	1.225	
Systematic Operations Risk- Rating Tool (SORT)		
Risk Category	Rating	
1. Political and Governance	High	
2. Macroeconomic	High	
3. Sector Strategies and Policies	Substantial	
4. Technical Design of Project or Program	High	
5. Institutional Capacity for Implementation and Sustainability	Substantial	
6. Fiduciary	Substantial	
7. Environment and Social	Moderate	
8. Stakeholders	Moderate	
OVERALL	High	
Compliance		
Policy		
Does the project depart from the CAS in content or in other significant respects?	Yes []	No [X]
Does the project require any waivers of Bank policies?	Yes []	No [X]
Have these been approved by Bank management?	Yes []	No []
Is approval for any policy waiver sought from the Board?	Yes []	No [X]
Does the project meet the Regional criteria for readiness for implementation?	Yes [X]	No []
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
Legal Covenants			
Name	Recurrent	Due Date	Frequency
Public-Private Advisory Board		30 June 2016	Once
Description of Covenant			
The Recipient Shall, through the Palestinian Authority, cause the Ministry of Finance and Planning to establish not later than June 30, 2016, and thereafter maintain throughout Project implementation an Advisory Board (“Public-Private Advisory Board”) with a composition, mandate, and resources satisfactory to the World Bank.			
Conditions			
Name		Type	
(1) Implementation Agreement with Project Implementation Agency signed.		Effectiveness	
Description of Condition			
The Implementation Agreement (IA) with the Project Implementation Agency (PIA), acceptable to the World Bank, will be signed by the Palestinian Authority as an effectiveness condition.			
Team Composition			
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I. STRATEGIC CONTEXT

A. Country Context

1. 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 12 percent in 2011, reflecting also mounting fiscal difficulties (including a decline in donor assistance by more than half since its peak in 2008 to less than US\$900 million expected in 2015 and the accumulation of arrears to the private sector), and sharply deteriorating economic conditions in Gaza. Growth decelerated to 6 percent in 2012, which represented a 50 percent slowdown in gross domestic product (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 -0.4 percent: 5.1 percent in the West Bank and -15 percent in Gaza. According to recent estimates, losses from the 2014 conflict amounted to over US\$4 billion, more than a third 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. In the first quarter of 2015 (latest available data), growth of the Palestinian economy further declined to -0.8 percent, driven by a slowdown in growth in the West Bank.

2. The unemployment rate has recently been declining in both Gaza and the West Bank, but a quarter of the Palestinian labor force is still unemployed. In Gaza, the unemployment rate skyrocketed to more than 47 percent during the 2014 war, the highest in the World. It has, however, been declining since and latest available data shows that it dropped to 42 percent in the first half of 2015 as the reconstruction process started to slowly pick up and private firms have been rebuilding their capacity. Unemployment in the West Bank has also slightly declined from an average of 18 percent in 2014 to 16 percent in the first half of 2015 due to the increase in the number of West Bank laborers in Israel. Unemployment amongst the youth (ages 15-29) is a particular concern particularly in Gaza where the rate exceeds 63 percent. At 20 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.

3. The Palestinian context is characterized by fragility. Weak governance and institutional capacity of the Palestinian Authority (PA) is further exacerbated by the economic weaknesses noted earlier. Earlier in 2015, uncertainty regarding the release of PA revenues collected by the Government of Israel (these revenues account for two thirds of domestic revenues and three quarters of the public sector wage bill) has been a significant contributor to recent revenue shortfalls. The relatively strong economy from 2006 to 2011 was largely financed by high levels of international donor aid (peaking at US\$1.8 billion in 2008), a PA reform program, and some easing of Israeli restrictions on the movement of people and goods. High levels of donor aid helped contribute to an increase in the consumption of public services such as education and health from 19 to 26 percent of GDP between 1994 and 2011. By 2012, the public sector

workforce ballooned to approximately 177,000 workers – 60 percent more than in 2004. The growth slowdown since 2012 was also attributable to decreased donor aid, which fell from 32 percent of GDP in 2006 to about 10 percent, together with lower than forecasted revenues and higher expenditures.

4. It is within this fragile environment of limited capacity and strained and uncertain public resources that this Series of Projects (SOP) will seek to mobilize private sector financing and know-how in support of job and entrepreneurship creation. This will be done through the deployment of innovative financial instruments specifically designed to address the different market and government failures arising in the fragile setting that the PA is tackling, with an emphasis on private sector implementation. This private sector driven approach will be combined with capacity building to the PA to strengthen collaborative arrangements with the private sector in the development and potential scale-up of these new financing approaches. Any scale-up would be based on a rigorous assessment of the lessons learned from the different financing approaches to be tested under the SOP.

B. Sectoral and Institutional Context

5. 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.

6. The necessary private investment and growth in the industrial and high value added service sectors that would generate jobs and GDP growth have 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 percent in 2000 to less than 15 percent 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.

7. Recent Bank Group analysis of the investment climate in West Bank and Gaza 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 for 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, reducing 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.

8. Limited private investment growth and the resultant suppressed demand for labor from the private sector have been accompanied by constraints on the supply side. The recently completed “Dialogue for Palestinian Jobs Creation” (DPJC) initiative (summarized in Annex 5) 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 “Systems Approach for Better Education Results” (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 percent, with the highest unemployment rate among females with 13 years of education or more, at 47.1 percent. 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.

9. A key contributing factor for suboptimal outcomes in the Palestinian labor market is that the skills development sector - which includes training providers, Technical and Vocational Training (TVET) schools, universities, the Ministries of Labor and Education, and the donors that fund the skills related interventions - remains insufficiently coordinated, and inadequately linked to the private sector. As the recent SABER Report found, the West Bank and Gaza scores low in terms of “fostering a demand-driven approach,” meaning that there are few opportunities for industry and other private sector actors to play an active role in the planning, oversight, and delivery of workforce training. Despite approximately US\$140 million in donor funds invested in the skills development sector 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.

10. In spite of the multitude of challenges both internal and external, the Palestinian private sector has displayed a level of resilience and a 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 Information and Communication Technology (ICT) sector that is able to attract investment. For example, Gaza Sky Geeks, a startup accelerator in Gaza, successfully raised over US\$250,000 through an international crowdfunding campaign. A number of larger Palestinian investors have also successfully attracted FDI in recent years. Three private equity (PE) funds and one venture capital fund, established since 2011, have committed total capital exceeding US\$206 million with estimated investments of at least US\$45 million. Though they are relatively new, domestic and foreign investments have been made in recent years particularly in housing, light manufacturing, agribusiness, and other sectors. This is evidenced, for example, by the deployment of political risk insurance by the Multilateral Investment Guarantee Agency (MIGA) as detailed further in Annex 6.

11. Private sector led growth is central to the socio-economic future of the West Bank and Gaza. The analysis conducted on the job/skills market, together with consultations with stakeholders, reconfirms the limited potential for new employment in the absence of new private sector investment. Fostering these investments will be a sine qua non for any significant improvement. The PA - constrained by fiscal and other institutional priorities - is also cognizant of the need to foster more private sector participation and move away from the public sector, supply driven and largely donor financed initiatives that have predominated to date. The private sector, on its side, is seeking new modalities to engage in tackling the national economic challenges - both in shaping and financing solutions. The current degrees of separation between the public and private sector in West Bank and Gaza needs to be further narrowed, together with the introduction of more pro-active collaborative, output-based approaches that are private sector led and co-financed.

12. An important example of where new “ways and means” are urgently needed is evidenced in the aforementioned growth of investment and Venture Capital (VC)-type funds. These funds have significant private capital available and continue to actively seek investment. However the pipeline of viable investment opportunities has been inadequate and this has led to a slow growth in the investment portfolio of these funds. Constraints cited include financing required for the provision of the additional hand-holding and support those prospective entrepreneurs require before investments can be made. Additional constraints include limited support for research and development (R&D) in sectors frequently required to launch new market ideas and products. For example, a 2013 study financed by Mercy Corps concluded that financial resources dedicated to R&D in the ICT sector were minimal and that as a result very few ICT and R&D innovations were being brought to the market as products or services¹. This is a risk-return consideration. Start-up entrepreneurship is high risk and everywhere requires additional “hand-hold” financing in addition to R&D. To draw down equity to fund these activities - which reflect a combination of market failure and public sector limitations - diminishes the attractiveness of the fund to investors. At least in the Palestinian case, these investors are generally already further “out on the ledge” than comparator funds in other middle and lower income, conflict and fragility-affected economies. Targeting financial support in this context serves both economic and social outcomes.

¹ Solutions for Development Consulting. “Palestinian ICT Sector 2.0: Technology Sector Development Report and Recommendations Relevant to Regional and Global Market Opportunities. (April 2013)

13. In addition to the ICT entrepreneurship sector, recent analysis further suggests that targeted investments in other major sectors of the Palestinian economy could have the potential to generate sustainable jobs. 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 “Initiative for the Palestinian Economy”. The Portland Trust initiative analyzed potential return 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 US\$8 billion in incremental GDP and create more than 150,000 direct jobs by 2030.

14. According to this analysis, the following sectors: (a) agriculture; (b) IT and digital entrepreneurship; (c) tourism; (d) construction; and (e) energy are identified as offering strong growth and job creation prospects, potentially generating around 40 percent of the jobs needed to reduce unemployment by 10 percent 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. These were the sectors that offer not only maximum potential for growth and employment but also the greatest scope for private sector intervention and ownership under existing constraints, including the Israeli restrictions on movement and access.

15. Based on the current analysis of investment requirements for a number of specific initiatives² and the application of derived input-output estimates for the various industry sectors/sub-sectors, there is potential for an additional 156,000 directly created jobs and some 200,000 indirect jobs to be created across these sectors over the next 15 years, based on an investment totaling US\$705 million. Most of this investment can be mobilized by the private sector, with the proviso that complementary financial enhancements can be made available to help mitigate the political risks and other market and government failures that currently inhibit these prospective investments from being made. This mitigation can come in a variety of forms, via conventional sources of risk insurance (for example, MIGA), but will also require some additional products and financing instruments to address specific investment constraints deriving from public service shortfalls, including training and infrastructure. An outline of what is under consideration is detailed in Section III below.

C. Higher Level Objectives to which the Project Contributes

16. **The Finance for Jobs (F4J) project is closely aligned with the Bank Group MENA Regional Strategy which was discussed by the Board of the Executive Directors on October 1, 2015 and which encourages the type of informed, action-oriented risk taking, innovation, and private sector engagement that characterizes the F4J initiative.** The F4J is particularly aligned with the pillars of “Renewing the Social Contract” and “Reconstruction and Recovery.” The former focuses on renewing the social contract between government and citizens, and gaining citizen trust through the promotion of social and economic inclusion, greater private sector led jobs, and enhancing the quality of public services. Private sector led job creation is at

² Including for example the Portland Trust and Office of the Quartet Representative

the core of the West Bank and Gaza’s development priorities, and lack of quality jobs is one of the key reasons for citizens (including individuals and private investors) grievances with the PA. The Reconstruction and Recovery pillar of the MENA strategy is especially relevant for Gaza which sustained significant economic and physical damages in the 2014 conflict. The Strategy indicates that the Bank Group will need to adopt a ‘dynamic’ approach to reconstruction and recovery that brings in external partners, leverages private sector financing, and moves beyond humanitarian response to longer-term development – precisely what the F4J SOP seeks to do. The most important reason for embarking on the new strategy is that without concerted action to promote economic and social inclusion for peace and stability, violence and conflict will continue to corrode the economies, societies, and lives of the people in MENA. The project – through its overall goal of fostering private sector driven job creation – will contribute to economic inclusion and will also be addressing the World Bank Group’s strategic goals.

17. The Assistance Strategy in the West Bank and Gaza was discussed by the Board on October 30, 2014 (Report #89503 GZ). The Strategy, in line with the Palestinian National Development Plan 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 National Development Plan. The PA has also endorsed an Integrated Strategic Program for Employment which supports three main objectives in order to create more job opportunities: (a) stimulation of investment opportunities; (b) investment in the Palestinian labor force; and (c) improving the enabling environment. The program emphasizes the need to incorporate financial incentives to encourage job creation entrepreneurship ventures and networks.

18. The F4J initiative also arises critically out of the conclusions drawn from a series of 2014 dialogues with Palestinian stakeholders from private, public and international partner sectors under the DPJC Technical Assistance (TA) activity. This engagement highlighted both the critical need for new investment to generate new jobs and continuing disconnect between public sector policy and institutions supplying skills to the labor market and specific and faster changing demands of the private sector. These two key outcomes have significantly informed the design of the different components of the proposed F4J program.

19. The F4J program is also a response to the growing World Bank Group-wide attention to the need to link economic growth with the increased supply of sustainable job opportunities as discussed in the World Development Report 2013 entitled “Jobs”. In response to this and the call for increased vigilance in assessing intervention impacts, the F4J will focus on and measure not only the economic benefits captured from new jobs created, but also the social benefits and externalities of job creation based on the currently ongoing development - by the Bank - of a “jobs-tailored” cost-benefit methodology.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

20. **The Project Development Objective (PDO) for F4J** is to test the effectiveness of selected financial interventions.

21. This project (F4J) would represent the first of an anticipated 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 projects in the series. A programmatic framework is proposed as it would allow for a phased approach, commencing with a capacity building and lessons learned engagement, together with the upstream detailed design and selected testing of innovative financing in support of private sector led approaches to job-creating investments. The proposed project would also entail the design of the robust measurement methodologies to be applied to assess the overall SOP PDO results. Subsequent projects in the SOP series would, building on the foundational work of F4J, provide for further product testing and potentially scaled-up funding to specific financial products. This experimentation and learning is integral to the F4J project objectives and to the likelihood of success of the overall objectives of this F4J SOP phased approach.

22. **SOP Project Development Objective:** Within the SOP framework, the overarching PDO supported by the SOP is “to mobilize private investment financing in high potential sectors and generate job opportunities for the West Bank and Gaza”.

23. For the purposes of the SOP, targeted groups include youth in the 18–29 year age bracket, including women (with a minimum share of 30 percent of total project beneficiaries).

24. The overall target of sustainable jobs created (defined in accordance with Palestinian law to be over six months equivalent full-time employment) and private investment mobilized will be reviewed and formally adjusted during the life of the SOP series. A first formal target will be established at the time of the Mid-Term Review (MTR) of F4J, once initial results from the design work and piloting activities of this initial project are established.

Project Beneficiaries

Overall the F4J will involve a range of beneficiaries including:

25. **Palestinian labor force** particularly the youth in the 18–29 year age bracket targeted for job training and skills development and a targeted share of 30 percent women in the beneficiary group that would benefit from the skills development and job placement opportunities as well as a better functioning entrepreneurship ecosystem.

26. **Private sector enterprises and service providers** that receive better qualified staff/employees and/or TA and capacity building services – including training providers related to the skills development component and the intermediary organizations and businesses that are supported through the other project components.

27. **Public sector** will benefit from enhanced dialogue and credibility between the public and private sectors, strengthened capabilities to utilize innovative financing instruments, increased capacity and service delivery within TVET/workforce that will complement existing public service provider capacity.

PDO Level Results Indicators

28. The proposed Key Performance Indicators (KPIs) at the PDO level for F4J include private capital mobilization from the Entrepreneurship Ecosystem Matching Grant (EE-MG), readiness of the Development Impact Bond (DIB) to be taken to market, and readiness of the Job-Focused Private Investment Pipeline. Learning outcomes and citizen engagement will also be important measures that will be captured within the intermediate results indicators (further details are provided in Annex 1):

- **Private Capital Mobilization:** The growth of business activity with the concomitant broadening of the base for private sector driven job creation. This would be measured in terms of private investment fostered by the EE-MG. Based on an envelope of funding amounting to US\$1.5 million, a “four to one” ratio of new investment to MG contribution is targeted.
- **DIB Taken to Market:** A key outcome of the F4J will be readiness of selected financial interventions to be deployed under the second project in the SOP series. This will be measured by assessing whether the DIB Special Purpose Vehicle (SPV) has been established with meaningful investor commitments (a minimum financial threshold will be determined during the first 12-18 months of project implementation). This also includes pricing of the DIB, establishing a robust monitoring and evaluation (M&E) methodology, and strengthening the capacity of local service providers.
- **Job-Focused Private Investments Pipeline:** This will be measured by the number of feasibility studies that are completed for the job-focused private investments pipeline, indicating that the instrument is ready for deployment under F4J II.

29. Learning is a highly important outcome of the F4J project. Four specific outcomes will be assessed:

- (a) Private sector appetite and uptake of new financial instruments;
- (b) Success in the application of a cost-benefit investment assessment methodology that captures the potential social value of the jobs created, including three types of additional “social externality” returns: (a) women and more vulnerable beneficiaries; (b) social stability and (c) human capital accumulation;
- (c) Strengthened and new capacity in the Ministry of Finance and Planning (MOFP) in investment assessment and in the development of innovative financing instruments for private sector job creation;
- (d) Structuring of robust F4J assessment and evaluation methodologies.

30. Citizen and civic engagement will also be an important element of the project that will be captured within the Results Framework. The Public Private Advisory Board (PPAB) will comprise representatives of the private sector and the PA and will act as a key feedback loop for the project. The project will also seek to measure the share of beneficiaries who feel that the

project investment reflected their needs. For example those benefiting from matching grants could provide input during the project about their satisfaction with services provided and how prepared they feel for investment. Crowd sourcing methodologies will also be explored to generate citizen feedback.

31. It is important to note that as this is a market-driven initiative, the project will need to be able to continually adapt to evolving market demand which in turn will impact the overall SOP PDO results in terms of the employment outcomes and levels of private investment mobilized. In view of this targeted SOP PDO and associated intermediate results indicators will be explicitly reviewed at the time of the F4J MTR and subsequent MTR exercises under further planned projects in the SOP series to determine whether, due to changing market conditions, targeted KPIs and intermediate results indicators need to be adjusted.

III. PROJECT DESCRIPTION

A. Project Components

32. The F4J project is the first stage in an approach that seeks to address the constraints that are seen to have a significant impact on private investment and the generation of job opportunities in West Bank and Gaza. These issues include a lack of financing enhancements to address the market and government failures and a mismatch of skills between those demanded by the private sector and those possessed by graduates. To this end, the F4J Project will comprise three main components, as detailed below.

Component 1: Entrepreneurship Ecosystem Matching Grant (US\$1.6 million)

33. While the innovation and entrepreneurship ecosystem in the Palestinian territories is nascent, it is currently gaining substantial momentum. Ranging from seed-stage accelerators, training boot-camps, entrepreneurship university courses, to the establishment of FDI and locally funded venture capital funds, current initiatives are expanding the segment of educated professionals who opt for income generation through entrepreneurship over the traditional job market. As a response to, and to capture the momentum of the rapidly growing sector, local and international institutional investors were quick to commit new 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 available support services and the development of a steady stream of “investment-ready” startups required to maintain the feasibility of early seed, venture and growth-capital funds. This has resulted in significant locked up capital on the investor side.

34. Component 1 will finance the EE-MG, a matching grant (cost-sharing) facility targeting early stage investment funds seeking to build a portfolio of investments in start-up and early stage enterprises. 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 eligible business development services (BDS) for these entrepreneurs. It is anticipated that the matching grant would mostly be 50 percent of total value of services provided and in the range of US\$10,000–50,000. The investment fund would provide the balance

of the financing for the services purchased. This can include production/design/quality development; marketing/distribution and other business management support services (refer to Annex 2 for further details). The matching grant financing would be made available at a “wholesale level” to investment funds whose investment strategy with a pipeline of prospective investees satisfy specific eligibility criteria related to job creation and business growth potential. Eligible BDS expenditures incurred by the Investment Fund and/or selected investees would be reimbursed through the EE-MG facility, in accordance with the procedures and matching arrangements set out in the Project Operations Manual (OM). Depending on the outcome of F4J (in terms of private investments mobilized) and pipeline demand, additional support could be made available via future SOP projects through an expansion of the matching grant and/or financing into early stage equity financing facilities.

35. Investment Funds seeking access to the EE-MG will be selected through a competitive process based on their overall financial strength and other criteria, including adequate capitalization, satisfactory management quality and agreement to pursue development goals in the selection of investments (for example jobs created especially for women and youth and level of private sector investment mobilized). The investment fund and its grantees will use the EE-MG to finance BDS procured from the market from one of two windows: (a) to develop a business idea to bankable status; (b) build the internal capacity of existing investment funds to provide in-house advisory services.

36. The Project Implementation Agency (PIA) will have the overall responsibility for the implementation of the EE-MG including management of grant funds, investment fund selection and accreditation, compliance with grant eligibility criteria, due diligence prior to and after grant awards, issuing grant agreements (GAs), setting disbursement conditions and conducting verification in addition to M&E. Further details on the key structural features of the EE-MG are provided in Annex 2 and more fully in the OM. An amount of US\$100,000 is also made available under this component – in addition to the US\$1.5 million for matching grants to finance capacity building to prospective applicants and technical due diligence on proposals submitted for financing.

Component 2: Capacity Building and Lessons Learned (US\$2.175 million)

Subcomponent 2.1: Building a Pipeline of Job-Focused Private Investments Requiring Financial Enhancements (US\$1.125 million)

37. Initial analysis, in consultation with leading Palestinian investors, indicates that investment opportunities do exist, even within the currently constrained investment climate. Returns are possible for entrepreneurs and investors who venture where most private capital may be reluctant. Potential profitable sectors include agro-processing, IT and light manufacturing—particularly in the case of this last sub-sector via existing industrial park/facility locations. Lack of good and reliable information causes however a big perception gap. Particularly in post-conflict countries, the gap between what people perceive from the outside and the reality on the ground is often big, leading to under estimation of opportunities.

38. As generally investors see most conflict-affected countries as extremely risky and would prefer to invest in a country with political stability and a defined framework for facilitating

foreign investment, additional incentives must be provided, possibly a combination of financial and technical facilitations. Furthermore, 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. Indeed, in West Bank and Gaza, as in many fragile and conflict-affected situations where state (or related institutions) often lack capacity or will to fulfill the basic state functions because of recurrent violence, expanding economic opportunities and increasing resilience to internal and external shocks is tremendously important.

39. In order to assess these benefits and the social rate of return they provide in order then to determine the merits of financial “enhancements”, detailed feasibility work is required. This component will finance these assessments and assist the PA and private sector to build a pipeline of job-focused private sector investments. A cost-benefit analysis (CBA) methodology will be utilized to capture and calculate the potential social value of the jobs created, including three types of additional “social externality” returns: (a) women and more vulnerable beneficiaries; (b) social stability and; (c) human capital accumulation. Subsequent projects in the F4J SOP could provide the financial enhancement products to help close private financing investment gaps in order to capture these additional social returns.

40. These private investment “assessment” funds will be allocated and managed by the PIA through a competitive “Call for Proposal” process based on job-creating and cost effectiveness criteria. The PIA will also be responsible for the technical oversight of the CBA activities to be undertaken. The development of this CBA methodology will be applied under the F4J.

Subcomponent 2.2: Developing the DIB for Skills (US\$0.7 million)

41. This subcomponent will finance the market preparation work and capacity building needed for the DIB instrument to be issued by the PA. Box 1 provides an introduction to impact bonds. The proposed DIB will be focused on enhancing the skills of the Palestinian workforce. The DIB will require intensive preparation work during the first year of project implementation to: (a) ensure a sound design (including cohort selection, services, outcomes/outcomes and related pricing, implementing arrangements); (b) develop the M&E methodology and put in place the baseline requirements; and (c) prepare the DIB market, including strengthening of service providers and attracting private investors.

Box 1. Introduction to Impact Bonds

Social Impact Bonds (SIBs), and more recently Development Impact Bonds (DIBs), have emerged as innovative financing models that leverage private sector investment and focus on achieving results. An impact bond is an instrument whereby investors pay in advance for interventions to achieve agreed results, and work with delivery organizations to ensure that the results are achieved. Outcome funders (typically official donors in DIBs and governments in SIBs) make payments to investors if the interventions succeed.

It is important to note that impact bonds are not “bonds” in the traditional sense (i.e. debt securities that pay a fixed interest rate until maturity). Impact bonds should rather be thought of as equity-like investments that offer repayment to investors only on the basis of results achieved and carry higher levels of risk and return than traditional bonds.

Moreover impact bonds differ from more traditional results-based financing in that they introduce incentives for performance based on investors’ desire to recover their investment. As a result, investors bring a more cost-effective private sector dynamic to the delivery of the intervention.

42. In respect of (c) above, the activities to be undertaken here would complement and build from the success of the World Bank's Education to Work Transition projects (E2WTP) and other donor efforts in building capacity for service providers. The capacity building is anticipated to include the following range of activities, although this will be continuously tailored to market-demand: (a) supporting potential providers in developing market-targeted training courses; (b) working with education institutions to improve linkages to the private sector; (c) raising awareness of the DIB amongst education institutions and employers, including job portal enhancements.

43. The knowledge learning and enhanced capacity generated from this component will not only prepare the market for the DIB financing under subsequent SOP phases, it will also help lay the foundation for any future investments in subsequent DIBs in the West Bank and Gaza.

Subcomponent 2.3: Capacity Building to the PA (US\$0.35 million)

44. There are numerous 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 2014 ICA. Much of this lies beyond the control of the PA. One area where more can be done is through stronger PA 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.

45. 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 and 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. Capacity to manage such externally provided expertise and follow through on its recommendations is required in order to ensure fiscal prudence, balance the incentives to avoid market distortions that can undermine the targeted social gains and ensure effective implementation, as well as M&E of activities and outputs/outcome.

46. The capacity of the MOFP - in respect of the additional responsibilities that come with assessing (including safeguards), developing and potentially managing innovative financing instruments - will need to be augmented. The project will support this, building on a core private sector implementation platform detailed in section C, through a package of capacity building comprising TA, training, secondments, internships and placements and essential facilities, equipment and software (FES).

Component 3: Project Management (US\$1.225 million)

47. This component will ensure the overall project implementation, fiduciary, safeguards, M&E, communications and technical expertise. As detailed further below, the PIA would be recruited by the MOFP from the private sector. The PIA would then be responsible for the management of the EE-MG for the entrepreneurship ecosystem component, contracting the DIB Advisor (D-Adv) and the feasibility study work to be undertaken to assess potential job-focused investments and provision of the capacity building support to the PA. The specific composition of the PIA will include the following core positions: (a) PIA Manager and senior economist; (b)

procurement specialist; (c) financial management specialist; (d) M&E specialist; (e) communications officer; (f) project coordinator in Gaza. In addition, the PIA would be responsible for contracting the specialized third party Independent Verification Agent (IVA) to assess the DIB output and outcome performance against which payments would be made once the DIB is operational and subsequent projects in the SOP provide the financing for these payments.

48. As the tracking of outcomes is critical to the DIB instrument, this project component will also provide support to activities such as the building of a baseline, data collection, and outcomes measurement.

B. Project Financing

49. The operation will use the investment project financing grant instrument financed from the Trust Fund for Gaza and West Bank (TFGWB). A breakdown of project costs are provided below:

Project Cost and Financing

Project Components	Project Cost	TFGWB Financing	% Financing
1. Enterprise Ecosystem Matching Grant	US\$1,600,000	US\$1,600,000	100
2. Capacity Building and Lessons Learned	US\$2,175,000	US\$2,175,000	100
3. Project Management	US\$1,225,000	US\$1,225,000	100
Total Project Costs	US\$5,000,000	US\$5,000,000	100

C. Series of Project Objective and Phases

50. This is a high risk initiative that will need to build capacity to absorb the new financing instruments under consideration. To mitigate associated risks and enable key upstream market readiness and capacity building activities to proceed on a priority basis, a Series of Project (SOP) programmatic approach (time series of projects) will be adopted. This will allow for the initial F4J project – with shorter term outcomes within the context of a wider programmatic development outcome – to put in place the enabling conditions for subsequent projects that will implement different financial instruments. The F4J also allows for a significant learning dimension to be incorporated into the project objectives and design.

51. Taking into account current market readiness and budget availabilities, the F4J will introduce the EE-MG financial instrument. An F4J II project—already under preparation—would introduce the DIB and potentially other financing instruments, depending on the outcome of the F4J preparatory assessment work. This second project is being planned for Board submission in FY17. Depending on the results from these initial two SOP projects the Bank Group, together with the PA, would assess the merits of proceeding with further projects within the SOP approach. These projects could entail the expansion of instruments already in operation or support alternative instruments, including guarantee instruments, and/or support to start-up

equity facilities. Eventual project design of future operations under the SOP will depend on the specific financial enhancement requirements of a prospective pipeline of job-creating private investments that are identified during the course of F4J. Examples of some of the different financing instruments that could potentially be introduced over the life of the SOP are summarized in Annex 6.

52. The current estimated budgets F4J II and F4J III are US\$7.5–10 million and US\$10 million, for a total SOP estimated value of US\$23–25 million. Given the limited financing capacity of the TFGWB, additional partner contributions will be sought for F4J II and F4J III, potentially via the establishment of a Multi-Donor Trust Fund (MDTF). It is anticipated that these subsequent projects in the series would overlap, depending on progress made in the first project in preparing future innovative financing opportunities. The total period anticipated for the SOP is 10 years. Implementation Completion and Results Reports will be completed for each project in the SOP.

D. Lessons Learned and Reflected in the Project Design

53. The F4J project design reflects lessons learnt from World Bank Group-financed projects, as well as other donor projects, and international best practices. Key lessons taken into account for this project include the following:

- **Better connection of the demand and supply sides of the job market:** The F4J initiative draws on the global lessons learned regarding job creation and the foundation put in place by the E4WTP and other donor projects which are largely focused on the supply side. This includes specifically targeting the demand side through the introduction of innovative financial instruments and enhancements—to attract private sector financing for investment projects that have a significant job-creation impact. Furthermore, to better understand the positive social spillovers of job creation and encourage further investment, a cost-benefit methodology will be utilized to capture three types of additional “social externality” returns from job creation: (a) women and more vulnerable beneficiaries; (b) social stability and (c) human capital accumulation.
- **Introduction of private sector led implementation arrangements:** Current capacity constraints impact the effectiveness of many PA implementing institutions looking to support what are largely private sector market activities. This is attributable to a lack of expertise and the institutional and bureaucratic rigidities that can make it difficult to respond to market developments in a timely manner. Given these considerations, the PA has concurred that the F4J should be implemented by a private sector implementation agent while also providing a platform for know-how transfer to a key PA department (MOFP). This will enable the MOFP to oversee the private sector managed project operations and outcomes with increasing technical and evaluative effectiveness.
- **Building a robust database for quantification and measurement of results:** There is a limited database from the PA and donors on which to empirically assess outcomes and compare the cost effectiveness of different initiatives. The DIB

instrument would be generating this sort of data and providing empirical evaluations of impact “additionality” applying methodologies that will address counterfactual issues. The World Bank Development Impact Evaluation initiative (DIME), as well as the Gender CCSA and the SP&L team are collaborating with the project team on the options to be further investigated and developed during the course of the first year of project operation. The team will also seek additional possible funding sources to support this critical element of the F4J.

- **Building on the growing global experience to date with new financing models:** While there is a limited track record with a number of the instruments under consideration, the current evidence is favorable. In the case of the DIB a recent Brookings Institution report found that impact bonds led to a shift in focus to outcomes and increased transparency and accountability for achieving results. The report further noted that by bringing the private sector mentality into the provision of services, impact bonds drove more effective and efficient performance management and stimulated collaboration amongst stakeholders. It was noted that impact bonds also support the development of strong M&E systems. In the case of all the new instruments being tested under this F4J initiative an active and strong engagement with frontier developments elsewhere in the world will be maintained and feedback incorporated into the project activities. This responsibility will be led by the F&M Global Solutions team, and will seek to incorporate learning from some of the key tools and programs that are offered by the Bank Group to firms with aspirations for growth including special financing instruments designed for early stage and innovation needs outside of typical bank finance.
- **Lessons Learned from Previous Matching Grant Programs:** While the EE-MG is a pilot that differs from more standard matching grant instruments insofar as the grants are channeled through investment vehicles rather than individual entrepreneurs, it will seek to take into account general lessons learned from previous World Bank interventions. These lessons, summarized further in Annex 6 include integrating sound diagnostic work to inform the design of market-driven approaches, the integration of the program with national strategy, clear eligibility criteria and involvement of the private sector.

54. Operationally, the F4J will require close technical and operational partnerships across the core project team GPs/CCSAs and the International Finance Corporation (IFC) and MIGA teams and potentially also a number of the infrastructure GPs (depending on specific private investment project requirements). Achieving an effective level of collaboration across the required GP/CCSAs will be key to project success—not just from a technical perspective—but also be able to present a sufficiently strong “MDTF-value” proposition to mobilize the additional donor funding needed to complement Bank Group resources.

55. IFC is building a healthy pipeline for the coming two years expected to reach over US\$175 million, where the focus will remain in the financial markets (Commercial banks and Microfinance institutions), and infrastructure, in particular energy in the areas of traditional gas fired power generation and renewable energy and solar power. The potential to collaborate

across these different IFC priority sectors, with a view to optimizing Bank Group impact will be actively investigated during the F4J implementation.

56. The F4J project will also complement and build upon lessons learned from the Bank Group-funded projects currently underway or recently closed. This includes the technical and skills training program supported through the E2WTP, which entails a competitive system of grant provision through support to tertiary education institutions in partnership with the private sector in three areas: (a) designing curricula, (b) updating teaching practices, and (c) providing practical training to students.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

57. The overall project implementation arrangements would entail three levels. At the apex is the MOFP 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 D-Adv. In support of the overall implementation arrangements, a PPAB would be established comprising key PA counterparts from the MOFP, Ministry of National Economy and Labor, together with representatives from the financial and private sector.

58. In addition to the PC, the PIA and the D-Adv, 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 SPV will need to be established by the private sector investors in the DIB. This would be done under the first F4J project. Operationalization would occur once the outcome funding is in place with the approval of the F4J II project. These different aspects of the overall project implementing arrangements are explained further in the Annex 3, which includes a schemata of the proposed implementation arrangements, encompassing both the F4J and F4J II projects.

59. 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 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.

60. The following summarizes the main project functions of each of the parties referenced above:

- **Ministry of Finance and Planning:** Key roles and responsibilities include:
 - Project design and associated preparation work, including safeguard requirements;
 - Stakeholder consultations and ongoing coordination;

- Concluding IA with the PIA;
- MOFP endorses the Withdrawal Applications indicating that funds be deposited directly in the DA managed by 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 D-Adv;
 - Financial management of project funds in coordination with MOFP;
 - Day-to-day project management, include work plan preparation;
 - Management of the EE-MG;
 - Technical Services – specifically for the investment pipeline and capacity building;
 - Negotiation of the DIB with investors;
 - M&E, including progress reporting.
- **D-Adv:** Key roles and responsibilities include:
 - Design and preparation of the DIB;
 - Management of initial capacity building support to prospective DIB service providers;
- **Public-Private Advisory Board:** Key roles and responsibilities include:
 - Semi-annual consultation on the joint issue of jobs and private investment;
 - Think tank on new ways for public and private sector to tackle the jobs challenge.

B. Results Monitoring and Evaluation

61. Given the learning that will take place across all activities financed by the F4J, results M&E is critical. A solid foundation for M&E in F4J will ensure that future projects within the SOP can continue to build upon the results and learning achieved in this first project. Due to the dearth of currently available information on outcomes achieved from investments including in skills development and employment interventions in the West Bank and Gaza, the learning generated from the M&E of the F4J will add significant value to the PA, Bank Group, and broader donor community. The F4J will, in collaboration with the PC, draw extensively on Bank

Group specialized expertise to assess the pros and cons of different evaluative methodologies and approaches and options to be introduced for the F4J program.

62. An M&E framework is presented in the OM. Relevant tasks will include: (a) development of the M&E methodology and implementation plan and approach to be taken for the compilation of baseline data requirements as determined by the methodology that is adopted; (b) preparing quarterly, half yearly and annual project monitoring reports, containing summary data on overall performance against targets; (c) annual and semiannual M&E reviews and lessons-learned workshops to ensure the M&E function enhances the ability to increase project outcomes. F4J will pay particular attention to the development of robust M&E arrangements for the planned DIB, including comprehensive baseline data and the pre-requisites for the critical measurement of DIB outputs/outcomes.

63. An MTR will be completed within 24 months after the F4J project is made effective in accordance with the terms of agreement to allow for a close review of experience to date and lessons learned. The MOFP will prepare the mid-term report detailing implementation progress and issues under all project components with particular attention paid to the design of the DIB. This report will be submitted to IBRD not later than two months prior to the MTR. During the MTR, implementation progress and solutions to identified issues will be discussed and agreed on and, if required, project redesign will be undertaken.

64. The project will also ensure effective and participatory M&E arrangements are established consistent with a robust M&E function – this includes: (a) the establishment of “third party” demand-based feedback arrangements with key stakeholder groups, and; (b) respect for diversity in participation by allowing space for women, the poorest, and marginalized social/ethnic groups to participate.

C. Sustainability

65. The F4J SOP - with its objective to crowd in private sector capital and know-how through specific financing instruments and complementary capacity building that creates incentives that foster private sector led market solutions - offers a potentially more effective means to bring private and public sector resources together to achieve job outcomes that can better address the labor market challenges of the West Bank and Gaza. The key pre-requisites for sustainability of the F4J PDO entail: (a) new methods of public-private coordination and partnership; (b) capacity building of both public and private sector actors in the investment and job-creation space; (c) deployment of specialized financing instruments that crowd-in private investment. In terms of these sustainability pre-requisites, the following considerations will need to be borne in mind during ongoing design and implementation:

- **Public-Private Cooperation and Partnership:** As evidenced in the DPJC exercise the partnership between the public and private sector in addressing the jobs gap is essential but currently limited and under stress. Longer term sustainability and improved outcomes requires new approaches to bringing the demand and supply sides of the job market together. This requires partnerships that utilize available public and private sector funding in ways that better uses the comparative advantages of the different players. This necessitates a readiness to experiment – particularly by putting

the private sector in more of a leadership role in directing both sources of financing towards desired job outcomes.

- **Capacity Building:** A key strategic goal of the F4J is to strengthen both the public and private sector to contribute to new modes of public-private collaboration. Key elements of this capacity building for sustainability entail the following:
 - **For the private sector:** (a) adapting the business practices of key organizations and service providers to provide services on output/market, rather than input/grant basis; (b) adapting investors to absorb publicly provided complementary financing that serves job-creating private investment activities;
 - **For the public sector:** (a) re-orienting public sector engagement in job creation from direct delivery and input-based metrics to the facilitation of a greater private sector led engagement based on market incentives and outcome-based metrics; (b) specific expertise to develop, structure and evaluate market-based financial instruments that can foster private sector job-creating investment;
- **Financial enhancement instruments:** The sustainability of the instruments to be piloted under this F4J program will rest largely on the strength of the private sector responsiveness and uptake, commencing with the EE-MG which is to be launched in F4J. Similar attention will be paid to the DIB and any other financial enhancement instruments that are launched under the subsequent F4J projects. The design of these instruments and ensuring the right balance is achieved in terms of market discipline and social return will be equally crucial to their longer term effectiveness.

66. The F4J—as the first in a proposed SOP series—will not in itself satisfy the above three pre-requisites and provide sustainable outcomes. It will lay the foundation for the uptake of new financing instruments that, when implemented in subsequent projects in the SOP series, will make possible improvements in job creation capacity of the Palestinian economy.

67. Finally, there are a number of donor-supported private sector development initiatives being implemented in the West Bank and Gaza. This project will foster synergies between these different initiatives and avoid overlaps. The Bank Group has also initiated discussions with donors on the potential for establishing a larger MDTF. A MDTF would source the additional financing that is anticipated to be needed beyond the F4J to have the overall leverage necessary to crowd in sufficient levels of private sector investment to measurably impact the jobs shortfall in West Bank and Gaza.

V. KEY RISKS

A. Overall Risk Rating and Explanation of Key Risks

68. The overall risk rating is High. This reflects the overridingly high political risk facing the Palestinian territories. Aside from the ever-present business and associated sector policy constraints arising from Israeli policies which can intensify and ease in unpredictable ways, there remains also a threat of further political instability that would significantly further limit both PA and private sector capacity to function.

69. Additional High risk to the PDO derives most notably from the current macroeconomic imbalances faced by the PA. On the fiscal side, risks relate to the persistently high fiscal deficit financed mostly through donor grants that have been relatively unpredictable and on a declining path. Also, repeated suspensions of tax revenue payments for taxes collected by the Government of Israel on behalf of the PA and lack of control over public finances and economic management in Gaza significantly add to the risks. The breakdown of the different risk ratings are summarized in the following matrix and subsequent more detailed explanations:

Systematic Operations Risk-Rating Tool (SORT)	
Risk Category	Rating
1. Political and Governance	High
2. Macroeconomic	High
3. Sector Strategies and Policies	Substantial
4. Technical Design of Project or Program	High
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Substantial
7. Environment and Social	Moderate
8. Stakeholders	Moderate
OVERALL	High

70. While the technical design category risk is High, due to innovative nature of the different financial instruments being tested - including the pilot EE-MG project component, the pioneer work required to prepare a currently untested DIB instrument and, the new “jobs-based” cost benefit methodology to be applied to the assessment of private investment initiatives – it is nevertheless the very objective of this project to test these instruments and therefore a risk that is accepted as integral to the project rationale. The private sector implementation arrangement serves to mitigate against the greater risk assessed for any alternative public sector implementation option. The project will also recruit specialized expertise that has applied experience with the different financial instruments, commencing with the D-Adv. The F4J will be dedicated to undertaking capacity building and due diligence to ensure that a solid design, management and implementation structure is in place prior to the launching of the different financial instruments.

71. While the crowding in of the private sector funding and expertise is itself a risk mitigation measure, there is the associated risk that the private sector will not be sufficiently incentivized to co-finance in ways anticipated. In other words, political or commercial risks could continue to hamper the private sector appetite for engagement. A number of specific mitigation approaches are to be built into the project to respond to these risks:

- **EE-MG:** Careful due diligence on commitment of the investment funds will be essential in allocation of funds. This will be complemented by possible adjustments in the level of match required. This will be determined on an assessment of the risk-return associated with the overall pipeline being proposed for EE-MG support.

- **DIB:** Attention will be paid to the design to ensure a balance of high risk outcomes and lower risk outputs in the payment matrix so that the investor has some “built-in” mitigation of downside loss. Establishment of a payment matrix that it is not skewed in favor of outcomes funder or DIB investor will be important to its initiative. In addition to the appropriate structuring of output-outcome payments, it will also be important to mitigate the risk of underperformance of the DIB and ensure delivery risk of outputs/outcomes is not borne only by the investors and is also shared by the DIB Manager (DM) and service providers.
- **In the case of the Investment Enhancement instruments:** The pricing of the social benefit that the investment generates in terms of jobs created and related considerations such as the share of female employment, social stability and wider human resource development—all of which is inadequately priced by market processes alone—will be key to the success of this instrument in crowding in the private investment. Getting the public private balance right in terms of a shared risk-return that incentivizes sustainable job creation over distortionary and unsustainable outcomes remains key.

72. Due to the novel funds flow arrangement proposed, fiduciary risks - financial management and procurement - are both rated as Substantial.

73. The broad stakeholder support for this project is one of its assets and the risk here is rated Low, with a private sector very supportive of piloting these new approaches and the public sector strongly endorsing the private sector implementation approach and financial product experimentation that are key ingredients of the F4J initiative.

74. Safeguard issues to be mitigated could arise where the F4J may - in subsequent projects in the SOP series - potentially direct financial support, further to the private investment pipeline feasibility work to be conducted under the market readiness subcomponent of the F4J project. The approach to address these prospective downstream safeguard issues is set out in the Environmental and Social Management Framework (ESMF) that the PA has developed.

VI. APPRAISAL SUMMARY

A. Economic and Financial (if applicable) Analysis

75. As the F4J project is predominately a TA initiative, it is not possible to arrive at an economic and financial rate of return for this initial project. While the F4J project does not have a “cost per job” target, but rather a private investment target based on the pipeline of investments that the EE-MG would be able to support and a learning outcomes based on lessons learned from the three project components, the overall F4J initiative will target a jobs outcome and cost-per-job set of KPIs that will be conducive to an economic analysis.

76. The initial assessments of the unit costs associated with the socio-economic outcome targets for the DIB and the EE-MG for targeted cohort of up to 2000 beneficiaries and 250 entrepreneurs respectively are as follows:

- **The DIB:** Unit costs are currently estimated at approximately US\$3–4,000 on average for beneficiaries of the DIB. This includes an estimated US\$1,400 wage match for those participants in internship/apprenticeships before achieving “sustained” job employment;
- **The EE-MG component:** The cost per entrepreneur supported - based on a matching grant ratio of 50 percent - will amount to US\$5,327. While these estimates are well in range of other unit costs cited - particularly given the characteristics of the cohort set targeted.

77. Current estimates of the cost per job created in West Bank and Gaza through grant financed projects varies. One donor project estimates this at approximately US\$3,800. The Welfare Association’s Youth Employment Service Program puts the cost of a job at US\$2,100 (excluding overhead recovery) and the QIF program at US\$2,500. Tamayyaz, a Palestinian leadership program which aims to equip youth with life skills which currently has an employment uptake into employment has cost on average US\$4,000 per graduate. Although it is recognized that these figures are not all robustly generated and not directly comparable, it does provide some benchmarks. By way of an international comparison, the UK Department of Works and Pensions - through its “Sustained Employment and Work First” program has a current average cost of GBP 1,500 to facilitate jobs referrals for program participants and a current cost of GBP 4,600 per job placement (although the total subsidy for any one participant can go as high as a capped amount of GBP 14,000 depending on their deemed “distance from entering the job market). This is based on total of 2 million persons who have to date started the program.

78. Further in-depth work on the anticipated cost per outcome will need to be undertaken and complemented by comparison with other country and donor program job creation costs. This will be done during the course of the first year of the project to provide a sound basis on which to also develop the cost and outcome pricing structure for the DIB and other prospective financial instruments to be introduced over the life of the F4J initiative.

79. Though there are challenges with accurately assessing the social impact of private investments, externalities from job creation can be defined, for example, by existing government policy/priority or by assessing social preferences depending on the type of job. Higher values could be assigned to jobs for youth, women, or other more vulnerable “further from the market” beneficiaries. It is also possible to use focus groups or survey analytics to determine specific weights reflecting the social value for different types of jobs for different beneficiary groups (by gender, age, and skill level). This methodology will be utilized both for the development of an eligible pipeline for investment enhancements and as an integral aspect of the M&E framework to be applied to the overall F4J SOP.

B. Technical

80. Private sector investment in the West Bank and Gaza confronts an extreme case of political and market risk. The fragmentation of factor and product markets can raise market-clearing prices to prohibitive levels. The limited financial intermediation and fiscal constraints impacting the Palestinian economy can further close off traditional avenues to address financing gaps on what would otherwise be commercially-sound investments. For instance, a lack of key

infrastructure - that would in other economies be appropriately supplied as a public good by government - may be absent in the context of West Bank and Gaza. If the private sector is to pursue market opportunities that will generate jobs, innovative public sector-supported approaches to mitigate these different failures will, in many cases, be essential for investments to proceed. The components of the F4J project and potential successor projects under the SOP will be designed to address, among others, four specific types of constraints that can deter private investment decisions:

- **Excessive market risk:** Arising from the heightened asymmetric information challenges associated with first mover and start-up investments in companies operating from West Bank and Gaza. The F4J will address this through the EE-MG;
- **Inadequate market incentives:** Due to dependence on input-based traditional donor approaches that can crowd out private sector-driven implementation arrangements and adaptive results-based approaches. The F4J will look to address this through the DIB instrument;
- **Capturing Social Externalities:** The private rate of return on investments might be low in FCS, due to different reasons such as obsolete technology, lack of infrastructure, inadequate skills, high political risk, and lack of adequate market institutions, hence the investment might not take place. Yet, private investments can also have a social return and contribute to well-being for individuals and society. If the social value of the investment is factored into the overall investment, there might be a justification for the public sector to support part of the investment. The F4J project will assess and measure the value of these social returns - specifically in terms of job creation for the most vulnerable (specifically youth, women and unemployed), of externalities to the society in terms of stabilization (if at a big scale), and of skills development for the labor force - and look to develop financial enhancements to support the investment;
- **Political risk:** Arising from the wider context of West Bank Gaza that impact private sector appetite to invest through possible F4J provision of political risk insurance products in collaboration with MIGA.

81. The overall value-added that the Bank Group provides derives from not only from its technical capacity to assist the PA to address the above challenges. It also entails the unique Bank Group convening power to mobilize wider financing from the private sector and other donors and the trust that the PA has to partner with the Bank Group to pilot a very different form of project with a private sector-driven implementation structure and a results framework that will entail private sector co-financing together with outcome-based payment arrangements.

C. Financial Management

82. The overall F4J project risk from a financial management perspective is *Substantial* after mitigating measures are taken into account - see Annex 3 for more details on the risks and mitigation measures.

83. The PIA will handle all financial management and disbursement aspects of the project and report to the PC at the MOFP as well as the Bank periodically. The PIA will be selected and the IA agreed upon before effectiveness. The FM arrangements for the Project will ensure that funds are used for the purposes intended. The PC at the MOFP has experience with Bank guidelines. A US\$ DA will be opened at a commercial Bank in the West Bank and managed by the PIA. Withdrawal applications will be endorsed by the MOFP and funds will be directly deposited into the DA account managed by the PIA.

84. There will be an FM assessment of the identified PIA undertaken once they are identified and capacity building will be provided if needed]. The PC at the MOFP will keep accounting records and ensure that the project's activities are recorded in the PA accounting system (Bisan). This will be done throughout the life of the project. This can be done on a batch basis with day-to-day accounting will be undertaken by the PIA. The system, currently used by other projects at the MOFP, will have a separate cost center that will be used for the project accounts.

85. The PIA will produce the interim financial reports (IFRs) quarterly and submit these to the PC who will endorse them and submit them to the Bank for the purpose of monitoring project implementation. The unaudited IFR should be submitted to the Bank within 45 days after the end of each quarter. The PIA will also be responsible for providing annual audited project financial statements which should also be submitted to the PC which will endorse and submit them to the Bank within six months after year-end. These statements will be audited in accordance with international audit standards by an audit firm acceptable to the World Bank and recruited competitively based on terms of reference acceptable to the Bank.

86. To ensure sound management of the project resources, the PIA will have an IA with the MOFP, supported by an OM that was finalized at negotiations. The OM has details covering all administrative, financial and accounting, budgetary and human resources procedures relevant to the Project.

D. Procurement

87. The overall procurement risk rating for the project is *Substantial*. The identified procurement risks and mitigation measures is summarized in Annex 3.

88. Procurement of goods, non-consulting services and consultants' services under the project will be carried out in accordance with the 'Guidelines: Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits & Grants' published by the Bank in January 2011, revised in July 2014 and the 'Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants' published by the Bank in January 2011, revised in July 2014,' the GA and the Procurement Plan approved by the Bank. The "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants," dated October 15, 2006 and updated January 2011, shall apply to the Project.

89. MOFP will engage a PIA from the private sector through a call for proposals process and sign an IA, subject to the Bank's no objection. The PIA will be responsible for project

implementation, including procurement, financial management and M&E in accordance with the IA and following the procedures outlined in the approved OM.

90. Procurement responsibilities would include selecting consultants for capacity building support, training and procuring essential FES. The PIA will be hiring the D-Adv and other consultants to provide consultancy services including capacity building and market readiness activities. In addition, the PIA will be responsible for managing the EE-MG and contracting the feasibility study work to be undertaken to assess potential job- focused investments. A procurement plan for this stage of the project shall be prepared and submitted to the Bank for approval by the MOFP/PIA.

E. Social (including Safeguards)

91. Activities to be supported by the projects are expected to generate socio-economic gains and have an overall positive effect. Initial assessments identify the following sectors as offering job creation prospects: (a) agriculture; (b) IT and digital entrepreneurship; (c) tourism; (d) construction, and; (e) energy. The further design work to be done for the DIB content during F4J, will serve to manage and mitigate possible negative social impacts of the job creation. Examples of these social impacts include: (a) differential access to job training, internship, and placement programs; (b) transfer of resources and jobs to one sector, with losses in another; and (c) overly strict requirements for hiring, which may dampen private sector appetite to establish new positions. Women and youth remain those at greatest risk of social exclusion in the labor force. Lastly, the local economy has unique challenges associated with labor force mobility. The gender and social consultants to be hired as part of the PIA will be tasked with identifying potential negative impacts and introducing practices which will intend to minimize these.

92. Overall, adverse social impacts are anticipated to be low. Any land requirements (temporary or permanent) for investments to be financed under the project will be met through lands that are under PA control or owned by private companies. Therefore, any sub-projects that may trigger the World Bank Policy OP4.12 (Involuntary Resettlement) by involving relocation of households, temporary or permanent land take, and impacts on livelihoods, including those that may occur through restriction of access to resources, will be excluded. In cases where land may be purchased through a “willing seller- willing buyer” approach or in cases of voluntary land donation, the F4J PIA will need to document for power of choice. This documentation must be provided for sub-projects to be considered eligible for screening. In other words, if the appropriate documentation is not provided, the sub-project is considered ineligible. To screen out for these exclusions, the project will rely on guidelines in the OM, which will include a rigorous sub-project screening process to be done by the F4J PIA. The main categories covered under the screening include but are not restricted to the following enquiries:

- Sub-project investments require the acquisition of private land (temporarily or permanently) for its development?
- Restriction of access to natural resources (for example pasture, fishing locations and forests) occurs for households and communities as a result of subproject-level investments?

- Subproject-level investments result in the involuntary relocation of individuals, families, or businesses?
- Subproject investments result in the temporary or permanent loss of economic activities, like crops, fruit trees, businesses, household infrastructures (such as granaries, outside toilets and kitchens)?
- The sub-project results in adverse impacts on individuals/entities encroaching on state lands?

93. A safeguards capacity assessment of the MOFP has been carried out. The ESMF outlines a capacity building plan for implementation during F4J in order to assure that the involved PA Ministries and private sector entities will become familiarized with the provisions of the Bank's social safeguards policies. Moreover, the F4J PIA will be staffed with a safeguards specialist - an Environmental and Social Officer (ESO) - familiar with Bank safeguard policies, including OP4.12 who will be accountable for ensuring that this screening mechanism is fully functional, implemented and regularly reported back to the Bank. A project-level Grievance Redress Mechanism (GRM) will be established in the first year of F4J including the following: assigned contact to manage the system; accessibility to communities; documentation of complaints using a log; timely written responses to complaints.

F. Environment (including Safeguards)

94. F4J is classified as *environmental category "B"*, in accordance with the World Bank's Operational Policy (OP) 4.01, due to potential adverse environmental and social impacts which are site-specific and reversible; these are 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; pedestrian and vehicular traffic and other construction-related disruptions; as well as worker occupational health and safety. Potential long-term impacts may include additional agricultural-related effluents within fields, hothouses, and/or warehouses; construction industry management of construction phase impacts; and e-waste and other lifecycle disposal management associated with alternative energy source development.

95. The OP4.01 (Environmental Assessment) and OP4.09 (Pest Management) are applicable to F4J. Agricultural processing subprojects may include the purchase and use of chemical formulations to involve OP4.09. In that case, a Pest Management Plan has been included as part of the ESMF. The ESMF, which has been prepared in compliance with World Bank safeguard policies for a Category B Project, as well as in compliance with environmental and social laws of the PA, includes the following:

- Identification and description in detail of the nature and extent of environmental and social impacts;
- An environmental and social screening checklist for potential subprojects, which includes a 'negative list' of subproject characteristics to be precluded from funding;

- Proposed mitigation measures for each category of subprojects to be considered as part of the evaluation of potential subprojects as part of F4J;
- An assessment of environmental and social safeguards expertise in the MoFP and other relevant implementation parties, as well as a capacity building plan for the F4J project, including training, budget, and timetable; and
- Results of stakeholder consultations with concerned potential stakeholders, including the potentially involved NGOs, private sector organizations, and concerned government agencies and private sector organizations.

96. **Screening process:** For each potential F4J subproject, a social and environmental safeguards screening tool will be applied, along with the specific subproject-level instruments that will be necessary to cover both social and environmental aspects (for example e., subproject specific Environmental Management Plan (EMPs), Environmental Guidelines for Contractors).

97. **Mitigation Measures and Monitoring Arrangements:** During F4J, potential individual subprojects will be reviewed on the basis of screening criteria, including economic/financial, social and environmental considerations. Individual template EMPs for each of the five priority subproject categories noted above will be used to guide preparation of subproject EMPs during F4J in preparation for implementation in a second phase of the F4J SOP.

98. **Public Consultations and Information Disclosure:** Three stakeholder consultations have been held during F4J preparation: July 9, July 30, and August 5, 2015. As the subprojects have not yet been identified, subproject specific beneficiaries cannot be identified and included in the consultation processes at this time. Each subproject EMP will include a site-specific consultation process, to take place during F4J implementation. Arabic- and English- language Executive Summaries of the ESMF, as well as the English-language ESMF, were disclosed in-country as well as in the Info-Shop prior to appraisal. The ESMF also establishes a GRM for the project.

99. **Capacity for Safeguards Implementation:** During F4J, the PIA will include an ESO. The Terms of Reference are included in the ESMF. There is sufficient depth of experience within the West Bank and Gaza to recruit locally. The ESMF and OM includes a capacity building plan to train in subject areas including, but not limited to, (a) pre-project screening, monitoring, and reporting; (b) Palestinian EQA and World Bank environmental and social safeguards standards; (c) stakeholder consultations, grievance mechanisms, and involuntary resettlement policies; and (d) design and preparation of subproject ESMPs. Capacity screening, ESMP preparation, construction supervision, monitoring, and reporting. Training will be for MOFP staff, PIA staff, and interested parties from the private sector. This is to occur as part of F4J's first phase so that capacity is built prior to subproject implementation in the second-phase of F4J.

World Bank Grievance Redress

100. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level GRMs or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are

promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate GRS, please visit www.worldbank.org/grs. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

Annex 1: Results Framework

West Bank and Gaza: Finance for Jobs (P151089)

F4J PDO: To test the effectiveness of selected financial interventions.											
F4J PDO Indicators	Core	Unit	Baseline	Cumulative Target Values					Frequency	Data Source/ Methodology	Data Collection Responsibility
				YR1	YR2	YR3	YR4	Target			
Private Capital Mobilized (US\$, millions) from the EE-MG	X	#	0	0	2.0	4.0	6.0	6.0	Semiannual Reporting	Investment Partners	Investment Partners/DIB Manager/PIA/MOFP
DIB Taken to Market (Structuring of SPV)		Y/N	N	N	Y	Y	Y	Y	Quarterly Reporting	D-Adv	PIA/MOFP
Number of Feasibility Studies Completed for Job-Focused Private Investments Pipeline		#	0	1	3	5	5	5	Quarterly Reporting	PIA	PIA/MOFP
F4J Intermediate Results Indicators											
Component 1: Enterprise Ecosystem Matching Grant (EE-MG)											
Number of Investment-Ready Entrepreneurship Initiatives in the Pipeline for the EE-MG		#	0	5	10	15	15	15	Semiannual Reporting	Investment Partners	PIA/MOFP/World Bank Group
Component 2: Lessons Learned and Capacity Building											
Legal formation of the DIB SPV		Y/N	N	N	Y	Y	Y	Y	Semiannual Reporting	D-Adv	PIA/D-Adv
Number of PA Staff Trained		#	0	1	2	4	4	4	Quarterly Reporting	MOFP	PIA/MOFP
Number of Briefs/Reports Produced on Lessons Learned from the Project		#	0	1	2	3	4	4	Annual Reporting	PIA	PIA/DIB Manager/MOFP
Component 3: Project Management											
Citizen Engagement: Beneficiaries that feel project investment reflected their needs (%)	X	%	0	75	80	85	85	85	Quarterly Reporting	PIA/Local Partners	PIA

Annex 2: Detailed Project Description

West Bank and Gaza: Finance for Jobs (P151089)

1. The PDO for the proposed Finance for Jobs project (F4J) is to test the effectiveness of selected financial interventions. The F4J would represent the first of an anticipated SOP. The overarching development objective supported by the SOP is the mobilization of private investment and the achievement of job outcomes in the West Bank and Gaza through the deployment of innovative financing instruments that can crowd in private investment. A programmatic framework is proposed as it would allow for the significant capacity building and market and “implementation arrangements” experimentation and learning while mitigating key risks. This project will be framed as an innovation and learning initiative entailing high risks and potentially significant development returns. The F4J will comprise three main components:

Component 1: Entrepreneurship Ecosystem Matching Grant (US\$1.6 million)

2. This component will finance a pilot matching grant facility, the EE-MG that will be accessed by early-stage investment funds seeking complementary funding to build an investible pipeline of projects. The matching grant fund will be a specialized instrument that will finance BDS to target investee entrepreneurs.

3. The objective of this component is to develop a pipeline of investment-ready entrepreneurship initiatives. This will be achieved by filling a gap in the entrepreneurship ecosystem that exists between support services often provided by donors and the development of a steady stream of investment-ready startups that the pipeline is currently lacking. Depending on the outcome of the first F4J project and pipeline demand, additional support could be deployed via future SOP projects through early stage equity financing facilities.

4. The allocation to this component of the project comprises US\$1.5 million for matching grants and an additional amount of US\$100,000 to finance capacity building to prospective applicants and technical due diligence on proposals submitted for financing.

Key Structural Features of the EE-MG

5. The EE-MG will target early stage investment funds, as well as more downstream venture capital, growth capital funds and other forms of post-accelerator financing and mentorship. Key to support of this stage of the investment cycle is the presence of committed private investment proposals. The rationale for channeling grants via existing investment funds is three fold:

- **Enhancing Viability of Early Stage Investment Funds:** The synergies achieved through partnership would maximize the use of funds. The matching grant contributions would free up the capital of the various “investment intermediary” entities to focus on financing of projects and product development rather than business support or the development of viable business plans.

- **Closing Financing Gaps in the Entrepreneurship Ecosystem:** Specifically in supporting availability of post-accelerator financing and mentorship where venture capital and PE investors typically would not engage. This would allow for a better success rate of firms past the initial acceleration/incubation period and provide the BDS necessary to grow riskier ventures which would otherwise not be funded.
- **Fostering partnership with existing private sector entities:** The intervention would ensure greater sustainability and avoid the replication of donor driven programs which lack private sector orientation and technical experience.

6. The EE-MG will be a relatively small pilot fund to improve the capacity of enterprises to more effectively absorb financing from these investment funds. The matching grants, provided on a 50–50 percent basis, would be made available at a “wholesale level” to investment funds that satisfy specific eligibility criteria related to job creation and business growth potential. The EE-MG will select existing investment funds based on their overall financial strength and other criteria, including adequate capitalization, satisfactory management quality and agreement to pursue development goals in the selection of projects (for example jobs created especially for women and youth and level of private sector investment mobilized), as further detailed below. Eligible Investment Fund grantees will use the EE-MG to finance BDS services (see below for more details) in the range of US\$15–50,000 procured from the market from one of two windows: (a) to develop a business idea to bankable status; (b) build the internal capacity of existing investment funds to provide in-house advisory services. This public sector intervention would free up the capital of the various investment intermediary entities to focus on financing of projects rather than the handholding of entrepreneurs.

Investment Fund Eligibility

7. Investment Fund’s applying to the scheme would be subject to a summary due diligence check to ensure that the matching grants would be properly managed, to assess the overall financial strength of the investment fund and to determine that the investment fund portfolio conforms adequately to developmental priorities. Two key criteria will be set-up to determine eligibility:

- The existence of appropriate accounting arrangements and a satisfactory due diligence report which would include³: adequate capitalization; satisfactory management quality, and a satisfactory portfolio with developmental focus.
- Agreement from the Investment Fund Management to pursue developmental as well as commercial goals in the case of all projects for which public funds are used.

8. Additionally, developmental goals would be adopted by the Investment Fund for projects which will be included in the financing agreements with grantee enterprises (for example jobs created, private investment mobilized, and so on.)

³ Note that these criteria are a limited subset of the CAMEL criteria used for analysis of the performance of banks.

Investment Fund Grantee Eligibility

9. In using the matching grants provided by the F4J project, the investment fund should target the types of business services needed to meet objectives compliant with the aforementioned two windows—consistent with developmental requirements: (a) develop a pipeline of ‘bankable’ projects; (b) strengthen Investment Fund capacity to provide in-house BDS services.

Applicant and Project Eligibility

- grant applicant enterprises must be small scale according to the PA’s official size categories;
- applicant enterprises must be majority privately owned;
- applicant enterprises should hold an appropriate business license, registration, and be tax compliant;
- the grant applicant’s project must be consistent with the World Bank’s safeguard rules on the environment.

10. Activities eligible for matching grant support include the following. These will be further set out in the OM for the EE-MG:

Capacity building in Investment Fund Funded Enterprises

Production, Design and Quality

- Improved organization of production
- Production process/ technology identification, selection, installation
- Product design/ diversification, product quality control
- Support with acquisition of technology licenses and patents

Planning, Marketing, Distribution

- business plan formulation
- market research, pricing, marketing
- market and technology exposure visits & trade fairs
- export marketing assistance

Business Management

- legal, financial management and human resource and recruitment services

- corporate management and organizational advisory services
- introduction of new business systems (accounting, ICT, production control)

Capacity Building within the IF

- strengthening of the IFs project preparation capacity
- project appraisal training
- business management training
- portfolio management

Component 2: Capacity Building and Lessons Learned (US\$ 2.175 million)

11. 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 and future follow-on projects within the F4J SOP. It will also seek to produce and capture the important lessons learned that will take place as a result of deploying these new instruments. 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 (see Annex 6) within future projects in the SOP, depending on the prospective pipeline of job-creating private investment. Further DIB activity could also be supported within the SOP based on the outcome of the pilot DIB supported in the first F4J project.

Subcomponent 2.1: Building a Pipeline of Job-Focused Private Investments Requiring Financial Enhancements (US\$1.125 million)

12. Initial analysis complemented by consultations with leading Palestinian investors indicate that investment opportunities do exist, even within the currently constrained environment, including in agro-processing, IT and light manufacturing—particularly in the case of this last sub-sector via existing industrial park/facility locations. However, the unique challenges confronting private sector investment in the West Bank and Gaza represent an extreme case of political and market risk. Fiscal constraints further exacerbate public investment in the public goods—such as infrastructure—that would normally be provided by the PA. This fragments markets—both factor and product markets and raises market-clearing prices to prohibitive levels. If the private sector is to pursue market opportunities, public support to mitigate these different risks will often be required for investments to proceed.

13. Given the social externalities of job creation, there is a public good case to be made for support to enable these projects to proceed and help mitigate these market failures. 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 private sector investments. A cost-benefit methodology will be utilized to also capture and calculate the potential social value of the jobs created, including three types of

additional “social externality” returns: (a) women and more vulnerable beneficiaries; (b) social stability and (c) human capital accumulation. This is summarized below in Box 2. Subject to the outcome of the due diligence, a subsequent project within the F4J SOP could put in place financial enhancements that enable these social benefits to be captured in the context of a commercial investment. Such financial enhancements would be subject to eligibility criteria based on the potential for job creation and a competitive selection process.

Box 2. Social Costs and Benefits Analysis of Jobs Outcomes

The motivation to calculate the social benefits deriving from job creation stems from the loss of private investments because the expected financial rate of return is deemed too low by the investor, even though estimates of the socio-economic rate of return would justify an investment. For the F4J initiative, particular attention will be paid to the estimation of the social value of job creation as part of the CBA to provide the justification for the public sector, donors, or socially minded investors to intervene and make the investment viable for the private sector.

A standard cost-benefit analysis derives a private internal rate of return on investments by equating the present value of future revenues and costs. In principle, there is a minimum rate of return, the hurdle rate that private investors require to justify the investment. The social internal rate of return on the project, however, can be above the minimum, because, unless the classic CBA in which all expenditures are seen as costs, some of them are actually seen as benefits since they are considered to have a positive impact on the economy, generating jobs and income. In particular, for the F4J initiative, in order to calculate the social internal rate of return we must assess three key aspects (i) the number of direct and indirect jobs created by type; (ii) the revenues (average earning/wages) associated with the jobs created; and (iii) the potential positive externalities from the jobs created.

In particular, the estimation of the social value of job creation, can be done through the private and social opportunity cost of the labor employed in a specific investment (estimated ex-ante). The benefits accruing to the workers can be defined as the difference between their wage bill and the private opportunity cost of the labor, defined as the value to the workers of the activities in which they would otherwise have been engaged. Though this value can vary throughout individuals, age groups, and gender, because of lack of information and data, prevalent interpretations set the shadow-price of labor at zero (employment benefits are equivalent to the wage bill). In order to assess the social opportunity cost of labor adjustments need to be made. Moreover, the shadow price for some categories of workers would need to be increased: jobs for women are likely to have a positive impact on the accumulation of human capital of their children; jobs for youth are likely to promote social stability, an increase in lifetime earnings; and jobs for low skilled/vulnerable workers are likely to reduce expenditures on social assistance programs, lower crime rates and costs. Though there are challenges and limitations with accurately assessing the social impact of private investments, different methods can be used and triangulations can be performed as well as the use of focus groups or survey analytics to determine specific weights reflecting the social value for different types of jobs for different beneficiary groups (by gender, age, and skill level).

Though there are challenges and limitations with accurately assessing the social impact of private investments, externalities from job creation can be defined, for example, by existing government policy/priority or by assessing social preferences depending on the type of job. For example, higher values could be assigned to jobs for youth, women, or other more vulnerable “further from the market” beneficiaries.

14. A preliminary assessment of some potential projects that could merit more in-depth assessment through the project facility has been undertaken during project preparation. For example—a potential solar power subproject 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 Bank Group Energy team. Should this subsequently prove both developmentally and commercially viable, consideration could be given under the F4J II to provide complementary enhancement financing necessary to bring this initiative to commercial and financial close. Additional private investment opportunities for assessment will also be considered, during the life of the project, based on a “first come - call for proposal” procedure and subject to eligibility criteria and the availability of project funding.

Subcomponent 2.2: Developing the DIB for Skills (US\$0.7 million)

15. The recently completed Jobs Dialogue activity and analytical work such as the ICA and SABER Report point to the skills mismatch as one of the key constraints to employment outcomes, particularly for youth and women. Evidence shows that there are available job openings; however, graduates often do not possess 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 (43 percent overall; 19 percent for women) and unemployment remains high (27 percent) particularly among youth and women. In addition to filling current openings, there is also a need to position the young workforce for future private sector investments that will require a job-ready skilled workforce.

16. One of the key underlying causes for suboptimal outcomes in the Palestinian labor market is that the skills development sector—which includes training providers, TVET schools, universities, the Ministries of Labor and Education, and donors funding skills related interventions—remains underdeveloped, uncoordinated, and inadequately linked to the private sector. As the recent SABER Report found, the West Bank and Gaza scores low in terms of “fostering a demand-driven approach,” meaning that there are few opportunities for industry and other private sector plays to play in active role in the planning, oversight, and delivery of workforce training. At the same time, strengthening the supply side alone will not ensure enhanced job outcomes. Private sector investment will need to be stimulated in order to create new jobs in the labor market and shift away from reliance on the public sector for employment.

17. This subcomponent will finance the market preparation and design work needed for the DIB instrument that will be deployed under F4J II. The DIB will require a specialized advisory team (D-Adv) that will be contracted by the PIA. The D-Adv will be responsible to: (a) ensure a sound design, management and implementation structure and (b) prepare the DIB market, including strengthening of service providers and attracting private investors. Activities financed under this subcomponent, primarily under Year 1 and Year 2 of project implementation, include the following:

- Selection and setup of the D-Adv, who will report to the PIA. Eligibility criteria will be determined in partnership with the PA and PIA;

- Design of the DIB by the D-Adv during Years 1 and 2 to identify optimal combination of activities and services required to deliver outcomes under the DIB;
- Structure and setup of M&E system;
- Capacity building for training service providers in developing training courses aligned with employer needs;
- Preparations specification for job portal enhancement;
- Management of competitive selection for service providers to deliver the intervention;
- Market outreach and negotiations with potential investors by the PIA; and
- Legal costs associated with setting up the SPV that will provide the corporate entity to administer the DIB investment funds.

Box 3. Introduction to Impact Bonds

SIBs, and more recently DIBs, have emerged within the last several years as innovative financing models that leverage private sector investment and focus on achieving results. An impact bond is an instrument whereby investors pay in advance for interventions to achieve agreed results, and work with delivery organizations to ensure that the results are achieved efficiently and effectively.; Outcome funders (typically official donors in DIBs and governments in SIBs) make payments to investors if the interventions succeed, with returns linked to results achieved.

It is important to note that DIBs and SIBs are not “bonds” in the traditional sense (i.e. debt securities that pay a fixed interest rate until maturity). Impact bonds should rather be thought of as equity-like investments that offer repayment to investors only on the basis of results achieved, thereby carrying higher levels of risk and return than traditional bonds. .

The DIB model incentivizes:

- The use of real-time data and information to enable a continuous focus on what is working and what isn’t, and performance management that responds quickly to such new information.
- Accountability for agreed outcomes, with inputs and processes necessary to achieve those outcomes left flexible and changeable.
- A platform for collaboration between public, private and civil society sectors, and building up an evidence base around independently verified intervention costs and impact.

Impact bonds therefore differ from more traditional results-based financing in that they introduce incentives for performance based on investors’ desire to recover their investment. As a result, investors bring a more effective, efficient, and dynamic private sector mentality to the delivery of the intervention.

18. The DIB design in particular will require careful due diligence to ensure incentives are properly structured and outputs/outcomes are meaningful and deliverable. The final DIB proposition, to be prepared by D-Adv will include:

- Intervention model - proposed mix and timing and intervention approach, including cohort eligibility criteria;

- Service providers, including lead service provider, proposed service provider mix, cost per training program, and key contracting terms;
- Type and unit cost of outputs and outcomes to be delivered;
- Potential investors and possible terms for example investor return, drawdown, payment schedule.

19. The knowledge, learning, and enhanced capacity generated from this component will not only prepare the market for the DIB proposed subsequent phases of the operation, it will also help lay the foundation for future investments in other DIBs in the West Bank and Gaza.

Subcomponent 2.3: Capacity Building to the PA (US\$0.35 million)

20. The PA faces an array market failures and challenges as it seeks to address job priorities in a uniquely fragmented, uncertain, and fragile economy. Many of the policy and regulatory instruments and levers that would normally be available to governments lie outside of PA control and authority. Particularly in an environment where more “traditional” policy solutions are not fully feasible or available, the PA must seek to develop innovative solutions and instruments and mitigate the risk that the private sector faces to the extent possible under current conditions.

21. At a minimum this will require a stronger dialogue and relationship between the private sector and PA. The Palestinian context requires a particularly strong level of partnership and coordination between the public and private sectors to the overcome these additional and unique hurdles in the market. Despite the multitude of challenges that confront the Palestinian private sector, a number of private sector players have begun to more actively engage with the Bank Group and other donors in an effort to be a part of the solution. While mistrust has characterized the legacy of patchy relations between the PA and the private sector, both parties have recently indicated a willingness to cooperate based on the mutual desire for enhanced social and economic outcomes in the West Bank and Gaza.

22. Furthermore, specialized expertise within the government is required to better understand market failures facing the private sector, to develop new financing instruments, and to effectively assess the economic and social returns of deploying such instruments. Such expertise is usually provided to governments via external firms with global reach and knowledge of international best practices. Governments need to have the absorptive 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, M&E of activities and outputs/outcome.

23. This subcomponent will finance capacity building activities to support the MOFP, in particular the Department of International Cooperation and Projects, to create a specialized unit with the expertise required to: (a) effectively engage with the private sector in order to collaborate on innovative solutions to job creation; (b) better understand the market failures and risks facing the private sector; and (c) to assess, develop, and potentially manage innovative financing instruments that will help mitigate risks facing the private sector and encourage job creating private sector investments. The existing capacity of the Department will need to be

significantly augmented to effectively to so. This will entail a package comprising among others, TA, training, secondments, internships and placements, and essential FES. This subcomponent will also finance the development of a public-private dialogue mechanism at the apex level of the project, chaired by the MOFP. The subcomponent will be critical to lay the foundation for future projects funded under the SOP.

Component 3: Project Management (US\$1.225 million)

24. This component will finance overall project implementation that will be overseen and managed by a PIA. As detailed in Annex 3, the PIA would be recruited from the private sector (in conformity with Bank Group guidelines) under an IA between the PIA and MOFP. Bank Group experience to date has shown that capacity constraints impact the effectiveness of many PA implementing institutions looking to support what are largely private sector market activities. This is most often attributable to a lack of expertise and, more generally, the institutional and bureaucratic rigidities that can make it difficult to respond to market developments in a timely manner. In addition the F4J is seeking to test out a new financing instrument that will strain limited capacity still further and put at greater risk the project outcomes. Given these considerations, the PA has concurred that the different components of the F4J, commencing with this first project, should be implemented by a private sector implementation agent. This delegation of implementation is allied to capacity building to the PA/MOFP to enable them to take on increased responsibilities where and when appropriate based on the lessons learned from the pilot activities and any subsequent roll-out of the different financial instruments.

25. The PIA would be recruited by the MOFP, in accordance with eligibility criteria developed by the ministry and Bank Group. The PIA would then be responsible for management of the EE-MG facility, implementation of the feasibility work under Subcomponent 2.1 (Building a Pipeline of Job-Focused Private Investments Requiring Financial Enhancements), recruitment and management of the D-Adv under Subcomponent 2.2 and provision of capacity building to the MOFP under Subcomponent 2.3.

26. The specific composition of the PIA will include the following core positions: (a) PIA Manager and senior economist; (b) procurement specialist; (c) financial management specialist; (d) M&E specialist; (e) communications officer; and (f) project coordinator in Gaza. In addition, the PIA would be responsible for contracting the specialized Third Party IVA to assess the DIB performance for output and outcome payments from the project and providing other short term technical consultants, to ensure delivery of the different project components. 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.

Annex 3: Implementation Arrangements

WEST BANK AND GAZA: Finance for Jobs (F4J)

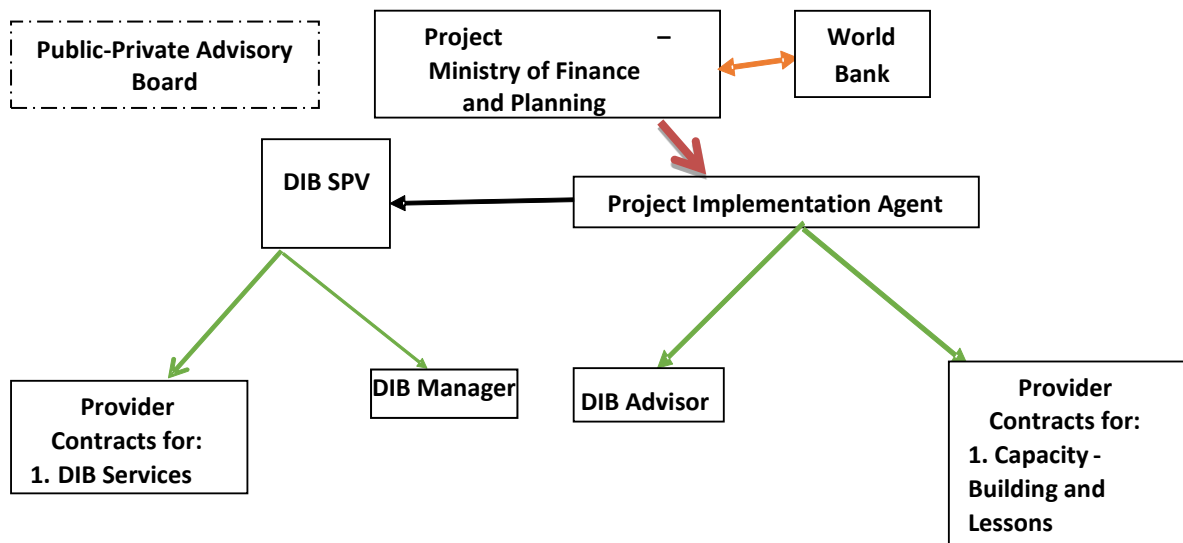
Project Administration Mechanisms

Summary of Overall Project Implementation Arrangements

1. The overall project implementation arrangements would entail three levels, as summarized in the Schemata A below. At the apex is the MOFP as the formal PA 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 (D-Adv). In support of the overall implementation arrangements, a Public-Private Advisory Board (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.

2. In addition to the PC, the PIA and the D-Adv, there will be separate contracts generated for other activities to be undertaken under the project. These are indicated as “provider” contracts in the schemata. Moreover, once the DIB process is launched a SPV will need to be established by the private sector investors in the DIB. This would be done under F4J, although its operationalization will occur only in F4J II once the outcome funding is in place.

Figure 3.1. Overall Project Implementation Structure



Legend

- Financing Agreement
- Outcomes Agreement
- Implementation Agreement
- Contract

3. The following summarizes the main project functions of each of the parties referenced in the above implementation schemata:

- **Ministry of Finance and Planning:** Key roles and responsibilities of the Ministry include:
 - Project design and associated preparation work, including safeguard requirements;
 - Stakeholder consultations and ongoing coordination;
 - Concluding IA with the PIA;
 - MoFP endorses the Withdrawal Applications indicating that funds be deposited directly in the DA managed by 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 D-Adv;
 - Financial management of project funds in coordination with MOFP;
 - Day-to-day project management, include work plan preparation;
 - Management of the EE-MG;
 - Technical Services - specifically for the investment pipeline and capacity building;
 - Negotiation of the DIB with investors;
 - M&E, including progress reporting.
- **D-Adv:** Key roles and responsibilities include:
 - Design and preparation of the DIB;
 - Management of initial capacity building support to prospective DIB service providers;
- **Public-Private Advisory Board (PPAB) :** Key roles and responsibilities include:
 - Semi-annual consultation on the joint issue of jobs and private investment;
 - Think tank on new ways for public and private sector to tackle the jobs challenge.

Specific Implementation Arrangements - The DIB

4. Specific arrangements will be required for the DIB design and implementation. This are set out in the following schemata B, which displays the key milestones over the an estimated 18–24 month design phase that would be financed under the F4J and a subsequent 3 year implementation phase where outcome payments would be made under the second F4J II project under the SOP program.

5. The PIA will be responsible for preparing, issuing and negotiating the D-Adv RFP. The D-Adv will be responsible for: (a) DIB Service Provider Capacity Building; (b) DIB Design and Procurement. Key responsibilities are explained more fully below.

PIA Responsibilities:

6. RFP for D-Adv: The PIA will be responsible for selection and contract management based on acceptable methods and procedures of procurement and selection of consultants of the private sector and the commercial practices, acceptable to the Bank.

7. DIB Negotiation: PIA negotiates the DIB terms with investors. Agreement is subject to World Bank approval.

DIB -Advisor Responsibilities:

8. Selected D-Adv undertakes **DIB design work** to identify optimal combination of activities and services required to deliver outcomes under the DIB, as specified in the contract. This includes:

- preparation of a **final DIB proposition** which identifies:
- Intervention model - proposed mix and timing and intervention approach;
- Service providers, including lead service provider, proposed service provider mix, cost per training programme and key contracting terms;
- Type and unit cost of outputs and outcomes to be delivered;
- Potential investors and possible terms for example investor return, drawdown and payment schedule.

9. Identification and management of **capacity building to prospective DIB service providers**. The D-Adv will initiate and manage overall capacity building work delivery, including any associated contracting support to the PIA (e.g. preparation of TORs, RFPs).

Financial Management

Implementing Entity

10. Fiduciary activities, including procurement and financial management will be handled by the PIA. The PIA will have an IA with the MOFP and will manage the day-to-day financial

management aspects of the project. The PIA will report to the PC which will endorse the reports and submit them to the Bank. The PIA and the PC will ensure that financial management under this Project is carried out in accordance with Bank procedures to ensure that the funds are used for the intended purpose.

Risk Analysis

Fiduciary Risks

11. The fiduciary risk level in the PA system is rated as High before mitigation. This is due mainly to the deterioration in the financial reporting of the PA and delays in the issuance of the public sector financial statements. The risk will be mitigated through PIA capacity building and close supervision, as well as regular audits. The residual fiduciary risk is **Substantial**.

Project Risks

12. The overall project risk from a financial management perspective is **Substantial**. The FM arrangements for the Project are designed to ensure that funds are used for the purpose intended, and timely information is produced for project management and PA oversight, and to comply with the Bank’s fiduciary requirements. Below are the main risks and mitigating measures:

Risk Assessment and Mitigating Measures

Risk	Risk Before MM	Mitigating Measures (MM)	Risk After MM
Inherent Risks:			
Country level			
Inherent risk in the country is High	H	<ul style="list-style-type: none"> The Project will be ring fenced through the PIA. There will be capacity building for the PIA and the PC which will reduce the country risks. A private external auditor will be hired to perform the annual audit of the Project FS. 	S
Project level			
There is a risk that the objectives will not be met which will create ineligible expenditures and a risk of misappropriation.	H	<ul style="list-style-type: none"> Bank supervision of SOE reviews. Ex post audit measures (annual audit) by external auditor. 	H
Inherent Risk Before MM	H	Inherent Risk after MM	H
Control Risks:			
Project Level			

Risk	Risk Before MM	Mitigating Measures (MM)	Risk After MM
The decentralized implementation of project activities and the involvement of the PIA and coordination with the MOFP PCU will require high capacity.	H	<ul style="list-style-type: none"> The current MOFP project management unit has experience with Bank guidelines from different projects and there will be specific capacity building activities for them going forward. The TORs of the PIA will be cleared by the Bank and they will have to have the capacity to ensure that the fiduciary requirements are met. 	S
Implementing Agency		<ul style="list-style-type: none"> 	
<p>Lack of adequate capacity at the existing project management unit at the MOFP.</p> <p>Inadequate accounting and reporting system that can capture data for all Project activities</p> <p>Financial Procedures Manual will have to be developed both at the PC and the PIA to meet the Project's FM requirements.</p>	H	<ul style="list-style-type: none"> A PIA will be hired to manage the project including all fiduciary aspects. The current MOFP PCU already has a well-functioning computerized accounting system. The chart of accounts will be revisited to ensure applicability to the current project. The system is capable of opening a separate cost center to account for and report for the transactions of the Project. A system will have to be set up for the PIA to comply with fiduciary requirements. The PIA with the PC will develop an OM to ensure relevance to the Project including FM aspects 	S
Control Risk Before MM	H	Control Risk After MM	S
Overall FM Risk	H	FM Risk After MM	S

Financial Management System

13. The **flow of funds and banking arrangements:** Bank financing will be a Grant to be disbursed through a DA opened by the MOFP and operated by the PIA once a satisfactory financial management assessment is completed and the PIA IA is signed between the MOFP and the private company. The MOFP will open a DA denominated in US\$ into which replenishments from Bank resources will be transferred and will be used in financing project components according to the approved budget.

14. Withdrawal Applications submitted to the Bank will be prepared by the PIA, signed by the authorized signatures at the MOFP and the PIA before submission to the Bank.

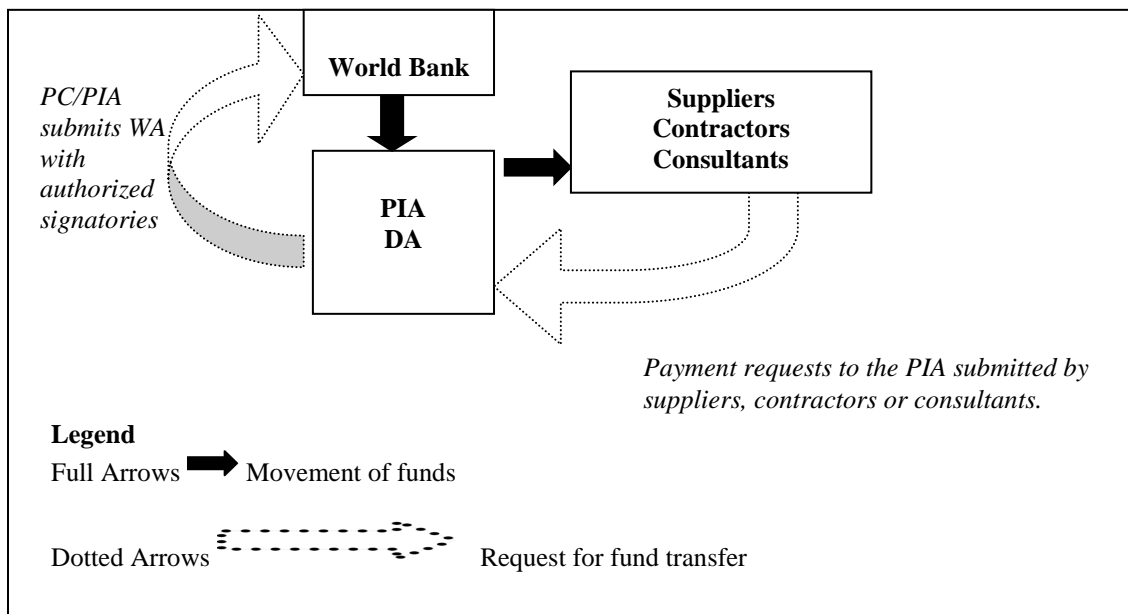
15. The PIA will vest the sole responsibility to disburse on behalf of the project to suppliers, contractors and consultants. Additionally, the PC and the PIA will maintain a monthly reconciliation statement between their records and the Bank's records per client connection. Such reconciliation will set out the disbursements by category as well as the DA balance.

Disbursement and payment requests will be based on approved contracts and services predefined in the Project documents.

16. DA bank account records will be reconciled with bank statements on a monthly basis by the PIA. A copy of each bank reconciliation statement together with a copy of the relevant bank statement will be reviewed monthly by the Project Financial Officer at the PIA who will investigate and resolve any identified differences. Detailed banking arrangements, including control procedures over all bank transactions (for example, check signatories, transfers, and so on.) are documented in the Financial Section of the OM.

17. The following chart describes the funds flow for the project:

Figure 3.2. Flow of Funds



18. **Information Systems:** A computerized FM system should be in place and efficiently operational at the PIA before Project commencement. The FM system should be capable of producing timely, relevant and reliable financial information that will enable the management of the project to plan, implement, monitor and appraise the overall progress towards the achievement of its objectives. There will be a new cost center opened in Bisan, the PA accounting system for the Project which will be used by the PC to periodically record all transactions as required by the government system of accounting.

19. **Financial Section of the OM:** The MOFP prepared an OM covering all administrative, financial and accounting, budgetary and human resources procedures relevant to the additional activities to be financed under the proposed project. An OM acceptable to the Bank was submitted by the client.

20. **Staffing.** Project activities including financial management will be handled by the PIA. The PIA will keep all accounting records and ensure all transactions are recorded. The PC currently at the MOFP will also keep accounting records and ensure that the project's activities

are recorded in the PA accounting system (Bisan). This can be done on a batch basis since the day-to-day accounting will be undertaken by the PIA.

21. **Financial Reporting and Monitoring:** The PIA will have overall responsibility for financial management of the Project. Specifically, the PIA will be responsible for: (a) consolidating the grant financial data; (b) preparing activity budgets (Disbursement Plan) quarterly as well as annually, monthly DA reconciliation statement, and periodic SOEs, withdrawal schedule, quarterly IFRs and annual financial statements; and (c) ensuring that project FM arrangements are acceptable to the PA and the World Bank.

22. The PIA will produce quarterly and annual reports as outlined below and submit these to the PC. The PC will be responsible for all reports during the interim period. The PC will then endorse and send them to the Bank for the purpose of monitoring project implementation.

Quarterly unaudited IFRs (submitted within 45 days after quarter-end):

- (a) *Financial Reports* include a statement showing for the period and cumulatively (project life or year to date) inflows by sources and outflows by main expenditure classifications; opening and closing cash balances of the project; and supporting schedules comparing actual and planned expenditures with detailed deviation analysis between actual and budgeted figures;
- (b) *Contract listing*, reflecting all signed contracts under the grant with the value of each and amount disbursed under each contract as at the report date;
- (c) *DA statement and reconciliation* showing deposits and replenishments received, payments supported by WAs, interest earned on the account and the balance at the end of the reporting period.

Annual Project Financial Statements (submitted within 6 months after year-end):

- (a) A Statement of Sources and Uses of Funds (by grant category/activity showing Bank and counterpart funds separately);
- (b) A Statement of Cash Position for project funds from all sources;
- (c) Statements reconciling the balances on the various bank accounts (including DA) to the bank balances shown on the Statement of Sources and Uses of Funds;
- (d) Notes to the Financial Statements for significant accounting policies and all other relevant information.

23. **Accounting Policies and Procedures:** Project accounts will be maintained on a cash basis of accounting augmented with appropriate records and procedures to track commitments and to safeguard assets. Accounting records will be maintained in US\$.

24. **External Audits:** The GA will require the submission of annual audited Project financial statements within six months after year-end. Project's financial statements will be annually

audited by a qualified independent auditor acceptable to the Bank, in accordance with internationally accepted auditing standards, and terms of reference acceptable to the Bank.

25. The auditors will be expected to express an opinion on the audited Project financial statements, on the eligible use of the Bank's contribution to the Project, the accuracy and propriety of expenditures and the extent to which these can be relied upon as a basis for loan disbursements, and the DA transactions, balances, and compliance with Bank procedures.

26. In addition to the audit report, the external auditors will be expected to prepare a Management Letter giving observations and comments, and providing recommendations for improvements in accounting records, systems, controls and compliance with financial covenants in the Bank GA.

27. **Implementation Support:** World Bank Financial Management supervision activities will include, but not limited to, review of SOEs, review of quarterly IFRs, review of annual audited financial statements and management letters as well as timely follow up on issues raised by the auditor. There will be field supervisions on a periodic basis during the Project life. Bank supervision missions will consist of visits to PIA and the PC at MOFP, and other stakeholders as necessary. Relevant documentation will be readily made available to Bank supervision missions.

Disbursements

28. Disbursements from the Bank will follow the transaction-based method, that is, traditional Bank procedures: SOEs, Direct Payments, and Special Commitments. For certain payments, above the "Minimum Application Size" as specified in the Disbursement Letter, Withdrawal Applications (WAs) will be submitted to the Bank for payments to suppliers and consultants directly.

29. The initial deposit into the DA will be based on a four months forecast prepared by the PIA and submitted with the WA. Subsequent disbursements into the DA will be requested through WAs, reconciled bank statements and copies of all bank statements. The supporting documentation for requests for direct payment should be records evidencing eligible expenditures (copies of receipt, supplier's invoices).

30. **DAs:** The DA will be held in US\$. The ceiling of the DA will be US\$500,000.

31. **Planning and Budgeting:** A disbursement plan will be prepared as well as a financial budget for the life of the project (broken down by year and by quarter). For PIA will prepare the budget for the coming year which will include the figures for the year, analyzed by quarter. The budget for each quarter will reflect the detailed specifications for project activities, schedules (including the PP), and expenditures on monthly and quarterly project activities. The annual budget will be sent to the Task Team Leader at least two months before the beginning of the project fiscal year for review.

Agreed Actions:

32. The following actions will be done before the first replenishment request:

Table 3.1. Agreed Actions

1. Complete FM assessment of the selected PIA for the Project. The assessment will be completed prior to signature of the IA which is a project effectiveness condition.
2. ToRs and EOI for the PIA (recruitment of the PIA is an effectiveness condition). PIA should have a Finance Officer for the Project to handle the accounting and financial management system of the Project. ToRs for the Finance Officer have to be agreed upon with the Bank and training of the Finance Officer will be provided upon hire.
3. FM Policies and Procedures Manual - As part of the OM, the PC should prepare an FM Policies and Procedures Manual to cover accounting, reporting, auditing arrangements, funds flow, documentation, payment process, and internal controls for both the PC and the PIA (to be updated throughout the life of the project). An OM - including the FM Policies and Procedures - acceptable to the Bank, was submitted by negotiations.
4. Project accounting system - PC to develop accounting books and the formatted IFRs. Format of IFRs was agreed upon by negotiations.
5. Budget - PIA to prepare annual budget based on the procurement plan by effectiveness.
6. DA and Signatories - PC to open the DA once a satisfactory financial management assessment of the IA is completed and inform the WB of the authorized signatories for the WAs by effectiveness.
7. Audit TOR - PC to prepare and submit the TOR of the auditor to the Bank for clearance after effectiveness.

Procurement

33. Procurement of goods, non-consulting services and consultants’ services under the project will be carried out in accordance with the ‘Guidelines: Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits and Grants’ published by the Bank in January 2011, revised in July 2014 and the ‘Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants’ published by the Bank in January 2011, revised in July 2014,’ the GA and the Procurement Plan approved by the Bank. The “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants,” dated October 15, 2006 and updated January 2011, shall apply to the Project.

34. MOFP will engage a PIA from the private sector through a call for proposals process and sign an IA, subject to the Bank’s no objection as a condition of project effectiveness. The PIA will be responsible for project implementation, including procurement, financial management and M&E. This would include selecting consultants for capacity building support, training and procuring essential FES. A procurement plan of the project satisfactory to the Bank was submitted by negotiation.

35. The PIA will be responsible for the implementation of project procurement in accordance with the IA and following the procedures outlined in the approved OM. The PIA will hire the D-Adv and other consultants to provide consultancy services including capacity building and market readiness activities. The PIA will be responsible for managing the EE-MG and contracting the feasibility study work to be undertaken to assess potential Job Focused investments. A procurement and capacity and risk assessment of the PIA will be completed once identified and prior to signature of the IA.

36. A procurement capacity and risk assessment of the MOFP was carried out as part of the Project's preparation. The assessment evaluated the institutional capacity of the MOFP to implement procurement for similar projects. It evaluated procurement risks and made recommendations on mitigation measures for efficient procurement under the project. Below is a summary of the identified procurement risks and mitigation measures:

Procurement Risks:

- (a) MOFP procurement and contract management experience in implementing similar projects with innovative nature and newly developed financing instruments particularly with the private sector is limited and it is unable to meet project procurement requirements.
- (b) Delays may be experienced in appointing the PIA, thus causing delays in launching associated project components.
- (c) Decision-making and implementation may be challenged by the attendant technical complexity and capacity limitations in the targeted areas/fields, specifically in the selection of the PIA.
- (d) Further deterioration of the political situation may limit competition and discourage participation by qualified international firms with specific expertise in the targeted fields, specifically for the PIA and the D-Adv.

Mitigation Measures:

- (a) A PIA would be recruited by MOFP from the private sector under an IA. The PIA would then be responsible for overall procurement implementation including the hiring the D-Adv, overseeing the management of the matching grant facility for the entrepreneurship subcomponent and contracting the feasibility study work to be undertaken to assess potential Job Focused investments.
- (b) A qualified procurement specialist within the PIA team will be handling the procurement under the project.
- (c) To ensure project readiness for implementation, Selection of PIA to be launched through the advertisement of a Request for expressions of interest and based on Terms of Reference with IA signature a condition of project effectiveness;
- (d) A detailed OM, outlining among other issues, procurement procedures applicable at various project implementation levels was prepared and approved by Negotiations.
- (e) The Bank team will maintain a close follow-up and quality control of procurement/contract management matters during project supervision to ensure the efficiency of procurement decisions.

37. The overall procurement risk rating for the project is ***Substantial***.

Procurement Plan:

38. Once hired, the PIA shall prepare a procurement plan for the activities that would be carried out under the IA in accordance with the procedures outlined in the OM approved by the Bank. These would include hiring the D-Adv and other consultants to provide capacity building and market readiness activities, and “IVA” that will provide “third party” assessment of outcome achievements for payment purposes.

39. Goods, Works and Non-Consulting Services shall be procured following one of the following methods: (a) International Competitive Bidding; (b) Shopping; (c) Direct Contracting; (d) Well-established Private Sector Procurement Methods or Commercial Practices which have been found acceptable to the World Bank; and (e) National Competitive Bidding.

40. Consultants’ Services shall be procured following one of the following selection methods: (a) Quality- and Cost-Based Selection; (b) Quality-based Selection; (c) Selection under a Fixed Budget; (d) Least Cost Selection; (e) Selection based on Consultants’ Qualifications; (f) Single-source Selection of consulting firms; (g) Well-established Private Sector Procurement Methods or Commercial Practices which have been found acceptable to the World Bank; (h) Selection of Individual Consultants; and (i) Single-source procedures for the Selection of Individual Consultants.

41. Due to their demand-driven nature, procurement for subprojects under the matching grant facility for entrepreneurship may not be defined up-front. It will be implemented based on Well-established Private Sector Procurement Methods or Commercial Practices which have been found acceptable to the World Bank, outlined in the OM, under PIA supervision.

Procurement Supervision

42. The Bank’s prior review thresholds will be set based on the existing procurement capacity and the identified procurement risks. In addition to prior review, the Bank will carry out at least two supervision missions per year. A post procurement review of contracts which are not subject to the above prior review requirements shall be conducted once a year. The procurement post reviews should cover at least 20 percent of contracts subject to post review. Complete procurement documentation for each contract, including Request for Proposals/bidding documents, advertisements, proposals/bids received, proposal/bid evaluations, letters of acceptance, contract agreements, securities, related correspondence, and so on, will be maintained by the MOFP and the PIA when applicable in an orderly manner, readily available for audit.

Environmental and Social (including safeguards)

43. The PIA staff will include the functions of a safeguards specialist with environmental impact assessment skills as well as with social safeguards skills, to be hired from the private sector. The Terms of Reference for this position is attached as an Annex to the ESMF. The ESO is expected to hold additional stakeholder consultations during project implementation, as the DIB design is actively underway, as well as specific to each screened subproject proposed for F4J inclusion.

44. The ESO will also undertake capacity building during the first F4J project, including, but not limited to, (a) pre-project screening, monitoring and reporting; (b) Palestinian EQA and World Bank environmental and social safeguards standards; (c) stakeholder consultations, grievance mechanisms, and involuntary resettlement; and (d) design and preparation of subproject ESMPs. Capacity building will be for MOFP staff, PIA staff, and interested parties from the private sector. The table and budget for the proposed training sessions is detailed in the ESMF.

45. Lastly, the ESO will advise and guide the private sector investors of potential subprojects in the writing of Terms of Reference for individual ESMPs as well as the steps involved in terms of the preparation and finalization of ESMPs.

46. Implementation risks for environmental and social safeguards in F4J are assessed to be Moderate, as there will be no on-the-ground activities to be financed during the first F4J project. The ESMF has been prepared to guide the preparation of subproject activities to be implemented and financed in a subsequent F4JII.

Monitoring & Evaluation

47. Given the important intrinsic learning that will take place across all activities financed by the F4J project, results M&E will be a critical element of the project, including the DIB. The importance of investigating various impact monitoring options to ensure the most robust and cost-effective is deployed is essential given that this project will represent the first “DIB” piloting done by the Bank Group and will provide the precedent for any subsequent DIB initiatives. The learning generated from the M&E of the F4J will also add significant value to the PA, Bank Group, and broader donor community, especially given the dearth of currently available information on outcomes achieved from skills development and employment interventions in the West Bank and Gaza.

48. A robust system of data collection and reporting on results will be in place through the Project Implementing Agency (PIA). One of its responsibilities, among others, will be the M&E of the DIB including progress reporting. An M&E framework system in accordance with the Project’s objectives and strategy will be established and detailed in the OM. Relevant tasks will include: (a) development of the M&E Design and Implementation Plan and approach to be taken for the compilation of baseline data requirements as determined in the design framework; (b) preparing quarterly, half yearly and annual project monitoring reports, containing summary data on overall performance against targets; (b) coordinating the organization of annual and semiannual M&E reviews and lessons-learned workshops to ensure the M&E function enhances the ability to increase project outcomes. The third component of the project will support the development of the M&E System with particular attention to the DIB measures of outputs/outcomes. The DM will be responsible for providing PIA the data and analysis through a real time data system as mentioned.

49. Furthermore, an impact evaluation is being considered to be integrated into the DIB component in order to ascertain to what extent success (job creation) can be attributed to the DIB. The team has examined various options for integrating an impact assessment into the DIB design, including the random assignment of beneficiaries and the establishment of control

group(s) in order to more robustly evaluate the counterfactual. Two main options for the establishment of control groups have been discussed:

- Create two control groups to compare the DIB graduates with a randomly selected control group that went through other types of trainings without the DIB management and a second control group that did not go through any training at all; or
- Create a paired control group which aligned cohort beneficiaries with equivalent non-cohort selected applicants. No effort would be made to distinguish between those in the non-cohort group who did and did not receive alternative forms of training. It is assumed that the net outcomes from this non-cohort paired control group would represent what would have anyway happened in the absence of the DIB program.

50. It is important to note that the design of the program will still be underway during the first phase of implementation, whereby further details will be gathered and analyzed to fine tune the design; this will include control group design, cohort eligibility criteria and screening methods, all of which will have implications for the M&E design. Because the final DIB design will not be completed until the project is underway, the impact evaluation approach will be contingent upon both final DIB design, as well as cost effectiveness

51. Additional funding will be needed for measuring impact of the F4J given the importance of evaluating the success of this innovative approach and learning from and applying the lessons learned to the anticipated SOP. The team will seek additional funding in collaboration with DIME and other relevant units.

52. With regards to Safeguards, the ESMP includes a Sample Individual Safeguards Monitoring Report designed for monthly reporting. The OM will provide more complete guidance for integration of the ESO reporting into the monthly, quarterly, and/or annual F4J reports.

Annex 4: Implementation Support Plan

West Bank and Gaza: Finance for Jobs (F4J)

Strategy and Approach for Implementation Support

1. **The Challenge:** In view of the innovative approach being taken in this “high risk” project - preparing the ground for new products and applying new implementing arrangements - for both the PA and Bank Group, a higher than standard level of implementation support is anticipated throughout the project period.
2. As detailed below, the project will require extensive cross-Bank Group cooperation (with IFC investment and MIGA) and within the World Bank, over the initial phase of the project, outreach to other prospective partners to contribute to the overall SOP initiative, potentially through the establishment of a MDTF.
3. **Aligning Team Composition:** There are a number of key considerations:
 - **Project Management Team:** A core task management team will be in place comprising co-TTLs bringing close hands-on operational and key technical engagement with the client on a daily basis from the Country Office in Jerusalem, together with fiduciary teams - procurement, financial management and disbursement team (based in Zagreb) - to provide sustained implementation support, including related work to develop the output/outcome arrangements that will need to be in place for the implementation of the DIB product under the F4J II.
 - **Core Bank Group Project Team Technical Skills Requirements:** The project will require ongoing support from “principal” GPs and the SP&L and more periodic engagement from others including IFC investment, MIGA and other infrastructure GPs and the Public Private Partnership (PPP) CCSA, depending on how the project activities evolve. The “principal” GPs will support the project through advisory input and regular technical missions, drawing on the following core areas of expertise: (a) F&M- regional team, SME Finance and Global Solutions, Infrastructure Finance (project finance); (b) T&C - Entrepreneurship and Innovation, Investment Climate (Public-Private Dialogue [PPD]); (c) Education and SP&L through their joint collaboration on the Skills Development agenda.
 - The PPP CCSA, together with IFC investment, MIGA and other infrastructure GPs will be working with the core task management team in the implementation of this project, particularly in the development of the jobs-focused CBA work to be undertaken on a pipeline of private sector investment proposals.
 - **Monitoring and Evaluation:** Given the special attention being paid to the development of the evaluation methodology and framework for this performance-based project, there will be a close collaboration with the Bank Group DIME team in DEC.

- **Consultant Requirements:** Bank Group expertise will be further complemented as required through the recruitment of specialized STC skills.

4. **Specific Responsibilities by Project Component:** Under the overall supervision of the F&M and T&C co-TTL, main responsibilities are as outlined below:

Component I - Entrepreneurship and Ecosystem Support:

- *Implementation:* F&M Finance and Global Solutions together with T&C Entrepreneurship and Innovation and Governance Fiduciary teams.
- *Monitoring and Evaluation:* F&M Finance and Global Solutions together with T&C Entrepreneurship and Innovation, SP&L and DIME/DEC.

Component II - Capacity Building and Lessons Learned:

- *Building a Pipeline of Job-Focused Private Investments:* F&M Infrastructure Finance (project finance) supported by T&C competitive industries, SP&L team and PPP CCSA, Safeguards, IFC, MIGA and other infrastructure GPs;
- *Developing the DIB:* F&M Regional and Global Solutions, together with Governance Fiduciary teams and supported by T&C Regional and Investment Climate/PPD, Education and SP&L Skills Development and DIME/DEC;
- *Capacity Building to PA and Public-Private Linkages:* F&M Global Solutions supported by Governance-Fiduciary; Education and SP&L and T&C Regional and Investment Climate/PPD.

Component III - Project Management: Co-TTL GP leads supported by Governance-Fiduciary, DIME/DEC, and Safeguards.

5. **Implementation Support Sequencing:** The F4J has two primary sets of activities that will be implemented in parallel. The first is the deployment of the EE-MG component. The second is focused on the capacity building and lessons learned—including the detailed design work and launching of the DIB. This second set of activities comprising the capacity building and lessons learned is not just to put in place the groundwork for the F4J but the entire SOP program. The second phase of the F4J will also need to be implemented in parallel with the F4J II and the DIB implementation as well as other possible financial instruments. There will be intensive implementation support in the first 6–12 months of the project as the PIA builds up its capacity through recruitment strategy that will focus attention on the key positions that will need to be filled on a priority basis—including the Project Director/Senior Economist and the D-Adv.

6. **Partners and Funding:** It is anticipated that additional funding over and above that available through the Bank Group supervision budget will be required in order to meet the requirements of the additional levels of implementation support required for the F4J project and F4J II. The project team will be looking to identify, mobilize and access appropriate trust funds, including specialized ones such as those focused on evaluation and tracer studies to supplement project supervision budgets.

Implementation Support Plan

7. The tables below provide a matrix of the areas of implementation focus, aligned to skills requirements and resource estimates of the F4J project implementation period.

Table 4.1. Budget Requirements

Focus	Skills Needed	Resource Estimate at US\$5,000 per SW)
Task Management	Overall strategic and operational management of project	90,000
Entrepreneurship	Entrepreneurship specialist with ICT investment and ecosystem experience and operational knowledge of matching grant schemes. Expertise to assess the effectiveness of this component	80,000
Fiduciary	Procurement, FM and Disbursement Specialists	30,000
Task Management	Overall strategic and operational management of project	180,000
Private Sector Investment Proposals	Project finance/PPP specialist with (a) SEZ/industrial park; (b) agro-business expertise.	30,000
DIB Design	Finance and Micro-economist with expertise in innovative financing and structuring Public-Private Performance-Based programming; Gender specialist with applied operational experience. Skills specialist to assess delivery partners and skills market	105,000
Fiduciary	Procurement, FM and Disbursement Specialists	40,000
Social and Environmental Safeguards	<ul style="list-style-type: none"> • Specialists to support: Capacity building in Palestinian and World Bank safeguard policy compliance, subproject screening, monitoring and implementation and establishment of GRM; • OP 4.12 subproject screening, GRM functioning, and subproject specific stakeholder consultations • Subproject specific ESMP preparation related to prospective project finance initiatives 	40,000
M&E	Evaluation specialist to assist with (a) design of impact experiments approaches; (b) MTR follow-up and assessment of overall F4J Results.	50,000
Total Budget (excluding consultants and travel)		645,000

Table 4.2. Skills Mix Required

Skills Needed	Number of Staff Weeks	Number of Trips	Comments
Project Management	54	15	Two per year plus one trip for Field Based Co-TTL to DC and travel for project (for example international investor outreach) and knowledge exchange
Enterprise/Matching Grant Specialist	10	8	Two per year for first phase and one per year for years 4–5.
Micro and Finance Economist	15	10	Two per year throughout project.
Project Finance	6	4	Two per year in first two years of project.
Gender	6	6	One per year. Two in MTR year.
Skills	6	6	One per year. Two in MTR year.
M&E	10	6	One per year, two in MTR year.
Social and Environmental Safeguards	8	4	Twice yearly; 50% trip
Fiduciary	14	5	One per year, including travel for project (for example international investor outreach) and knowledge exchange on performance based DIB learning
Total	129	64	

Annex 5: Proceedings of the Dialogue for Palestinian Job Creation Initiative

I. INTRODUCTION

1. At the start of 2014, on the request of the World Bank Country Management Unit and in cooperation with the Deputy Prime Minister's Office of the PA, a Bank Group team undertook to support a dialogue between key stakeholders within West Bank and Gaza to review the status of job creation efforts within the territories. The initiative, referred to subsequently as the DPJC undertook - through the auspices of the Palestinian Economic Policy Research Institute (MAS) - a series of roundtables to discuss specific issues related to key constraints and opportunities with a view towards identifying some "out of the box" solutions to this developmental challenge.

2. The Bank Group support was a joint initiative involving the different key Global Practice (GP) teams, commencing with a presentation of the findings of a recently completed SABER Country Report⁴ - from the Social Protection and Labor (SP&L) arising out of an April 2014 mission and then followed by three roundtables focused on: (a) labor force development; (b) the role of the private sector - drawing on the recent work of Portland Trust⁵; and (iii) the business environment, drawing on the recent World Bank reports⁶ "West Bank and Gaza Investment Climate Assessment - Fragmentation and Uncertainty" and "Jobs or Privileges". Additionally the Bank Group report on "Area C and the Future of the Palestinian Economy" was a key diagnostic also referenced during the course of the roundtables.

3. This summary report of the proceedings of the DPJC comprises: (a) an overview of the individual MAS reports on each of the Roundtable events; (b) a more in-depth summary of the key issues highlighted in the referenced source materials that were used as the basis for discussions and presentations at the roundtables; and (c) conclusions and proposed next steps.

II. SUMMARY OF THE ROUNDTABLE PROCEEDINGS

4. In addition to the summary of the SABER presentations and the three roundtables presented below, the full text of MAS reports on the three Roundtables are available from files. All roundtables took place at the MAS offices, with connections to Gaza.

The SABER Presentation (2 April 2014)

5. This public presentation took place in Ramallah. It was part of a SP/Lab Education to Work Transition (E2WTP) project mission to West Bank in March–April 2014. The SABER report on workforce development (WfD) in West Bank and Gaza, which was part of a wider

⁴ World Bank Group, SABER West Bank and Gaza Country Report (2013) on workforce development http://wbfiles.worldbank.org/documents/hdn/ed/saber/supporting_doc/CountryReports/WFD/SABER_WfD_Palestine_CR_Final_%202014.pdf

⁵ Portland Trust, Beyond Aid: A Palestinian Private Sector Initiative for Investment, Growth and Employment (2013). http://www.portlandtrust.org/sites/default/files/pubs/beyond_aid.pdf

⁶ World Bank Group, West Bank and Gaza Investment Climate Assessment: fragmentation and uncertainty (2014). http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2014/09/09/000470435_20140909140008/Rendored/PDF/AUS21220REVISE0A0REPORT0SEPT0902014.pdf

multi-donor financed multi-country study of key aspects of education outcomes, reached the following conclusions:

- West Bank and Gaza was experiencing a doubling of students every 15 years and while the labor force is becoming more educated, assessments of educational attainments were low relative to comparators. Labor force participation was low at 43 percent, largely due to low female activity (17 percent) and high unemployment (21 percent) in particular among highly skilled women (36 percent);
- Across the three key categories of SABER WfD assessment - Strategic Framework (SF), System Oversight (SO) and Service Delivery (SD), the West Bank and Gaza was ranked as “emerging” against a four scale measurement comprising latent, emerging, established and advanced. More specifically:
 - **SF:** Findings indicated weak advocacy for WfD and insufficient M&E of strategic objectives and decisions;
 - **SO:** Need to: (a) deepen and further institutionalize partnerships between training institutions and employers and conduct more systematic reviews of impact of funding on beneficiaries of programs; (b) increase the introduction of quality standards for occupations and facilitate accreditation and recognition of prior training;
 - **SD:** A diversity of non-state providers are active in the training market, despite paucity of government incentives. Moreover while there is informal links between training institutions and industry regarding curriculum development and specification of training standards, links between training providers and research institutions are rare.
- Overall West Bank Gaza has the lowest WfD mean scores in the region; issues of measurement and quality, and coordination (within the PA, with training institutions and private sector and with donor funding programs) are of particular note.

The First Roundtable (5 May 2014)

6. The first roundtable that took place on 5 May 2014 and involved the launch of the initiative. Opening remarks were made by Dr. Mohammad Mustafa, then Deputy Prime Minister, Mr. Steen Jorgensen, World Bank Country Director and Dr. Samir Abdullah, Director of Research, MAS Institute. Key points made during the roundtable are summarized below:

- **The Importance of the Private Sector:** The Israeli restrictions on the movement of people and goods severely constrain job creation potential in West Bank and Gaza and denies the prospect of achieving a comprehensive development. In this context the focus should be on human resource development and private sector driven job creation;

- **Aligning Skills Supply to Market Demand:** Ways and means to better match education outcomes to market demand and more efficiently facilitating absorption, particularly of youths from college, university and training institutions into jobs;
- **Investment and Entrepreneurship:** Given the unique constraints on the Palestinian economy, the need to revisit the optimal forms of support required to re-direct investment to areas where job opportunities are greatest and foster also entrepreneurship which potentially offers more short term scope for generating income versus wage employment;
- **Weak Implementation and PPD:** It was noted that there had overall been poor implementation of prior strategies and weaknesses in the quality and effectiveness of PPD processes.

The Second Roundtable (9 June 2014)

7. Opening remarks were made by Dr. Samir Abdullah from MAS and Mr. Steen Jorgensen from the Bank Group. The keynote presentation was made by Mr. Samir Hulileh, CEO of PADICO and by Portland Trust (Mr. Kamel Hussein and Mr. Adil Kalam). The main conclusions from this session were as follows:

- **PA Coordination and Resource Allocation:** PA efforts in planning educational development (including curriculum innovations and a greater focus on vocational schools development) and resource allocations need to be done in partnership and focused on private sector and in those sectors offering the greatest job potential;
- **Sector Opportunities:** Current analysis suggests job growth, even within the current constraints, particularly in the IT, agro-business, tourism, and construction and energy sectors. Over a longer term horizon, the Portland Trust analysis suggests with investments of US\$700 million, a potential of an additional 156,000 jobs could be created;
- **Gaza:** There are unique challenges facing the Gaza economy, especially in the wake of the July 2014 conflict with Israel. Existing jobs have been lost and limited job growth potential severely further undermined by the level of capital destruction caused by the conflict;
- **Reforms:** While there remains an urgent need for constant regulatory reform and the introduction of new laws to facilitate an enabling environment for growth and private sector job creation, the absence of a formal legislative process since the last elections hinders the effectiveness with which these reforms can be carried out. A greater consultative effort is needed to ensure legislative transparency and the inclusion of private sector stakeholders in future reforms;
- **Constraints:** Participants reiterated throughout the roundtable discussion an overriding concern at the limited potential to improve the investment climate

sufficiently within the constraints in ways that can foster the investment and entrepreneurship the economy requires.

The Third Roundtable (8 December 2015)

8. The roundtable was chaired by Dr. Samir Abdullah from MAS who provided opening remarks together with Mr. Steen Jorgensen from the Bank Group, together with Mr. John Panzer, Mr. Bernard Funck, Mr. Mark Schiffbauer, and Mrs. Nabila Assaf of the Bank Group. The principal points from the presentations and discussions are summarized below:

- **Political Uncertainty and fragmentation:** According to the recently conducted Enterprise Survey, the single largest obstacle to private sector investment is the political uncertainty facing the West Bank and Gaza and impact of mobility restrictions. This is further reflected in the fragmentation of the Palestinian economy, as evidenced in productivity and efficiency differences between West Bank, Gaza and East Jerusalem;
- **Productivity Performance:** Despite lower capital intensity than comparator countries, labor productivity is within expected range and better than average technical efficiency compensates. Key areas for improvement include access to land, energy and markets, development of skills technology and entrepreneurship and strengthening the role of the private sector;
- **Informal Sector:** Increasingly the primary source of employment growth in the MENA region is informal and in micro firms (60 percent of employment in West Bank and Gaza);
- **Investment Climate and Implementation Challenges:** Despite the policy limitations as a result of the movement restrictions, there are constraints under Palestinian control that can be addressed. This includes inconsistent and unpredictable implementation of laws and policies and the need to foster new service market opportunities, where Israeli imposed mobility prohibitions pose less of a hurdle. More emphasis also on the role of municipal policies and procedures and the impact this level of government can have on private sector employment growth;
- **Start-Ups:** The most dynamic source of employment is in start-ups and not established firms. The relatively slow entry of new businesses is a key policy consideration for the creation of jobs.

9. A number of conclusions arose from this process. The DPJC concluded with a call to develop an Action Plan built around the underlying diagnostics presented at the different roundtable events. It was also evident from the strong participation at all the events, together with the intensity of the discussions that took place on the different topics, that—while there is a strong consensus on the problems—there remains no shared vision on how to proceed most effectively to tackle these problems. Divisions between PA departments/agencies, between the PA and private sector and within different segments of the private sector separated by political

segmentation, specific sector interests and/or status of incumbency/informality have all played their part in this resulting situation.

10. One issue that was not addressed to any great degree in the roundtable sessions is the arguably equally fragmented character of much of the international donor support to private sector development and the creation of jobs. This is an area that will merit further assessment.

III. SUMMARY OF KEY DIAGNOSTIC WORK

11. This section provides a more detailed summary of the different diagnostic work presented at the different DPJC roundtables, with a particular attention paid to what these reports assessed and concluded in terms of the jobs agenda.

Area C and the Future of the Palestinian Economy⁷:

12. The West Bank is divided into Areas A, B and C, each with separate administrative and security arrangements⁸. Area C constitutes approximately 61 percent of the West Bank territory. Israeli restrictions in place render much of the potential economic activity in Area C very difficult or impossible to conduct.

13. The report argues that while domestic factors may have contributed to investor reticence, Israeli restrictions on trade, movement and access represent the binding constraint to investment in the Palestinian economy. These restrictions substantially increase the cost of trade and make it impossible to import many production inputs into the Palestinian territories. In addition, the restrictions on movement of labor have been shown to have a strong impact on employability, wages, and economic growth. Private investment in the Palestinian economy has averaged around 15 percent of GDP, while FDI has averaged around 1 percent of GDP over the past ten years, both of which are considered very low in comparison to most fast growing economies. Furthermore, significant segments of this investment carries little impact on employment outcomes; being channeled into internal trade and real estate development.

14. Summing up the locked potential of Area C, the alleviation of today's restrictions on Palestinian investment, movement and access in Area C could bring about significant direct and indirect expansion of several key, job creating sectors of the Palestinian economy, including agriculture, Dead Sea minerals, stone and marble mining, construction, tourism, and the telecom sector. The Bank Group report estimates the total potential value added that could be generated as a result of the alleviation of today's restrictions in Area C is approximately US\$3.4 billion, or 35 percent of Palestinian GDP⁹.

⁷ World Bank Group (2013): http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2014/01/23/000442464_20140123122135/Rend ered/PDF/AUS29220REPLAC0EVISION0January02014.pdf

⁸ Area C is defined by the Israeli-Palestinian Interim Agreement on the West Bank and Gaza Strip as "areas outside Areas A and B which, except for issues that will be negotiated in the permanent status negotiations, will be gradually transferred to the Palestinian jurisdiction in accordance with this agreement. Source: West Bank and Gaza Area C and the Future of the Palestinian Economy, October 2013, World Bank.

⁹ 35% of Palestinian GDP in 2011.

15. The impact of this increase in value added on employment and poverty would be large. If IMF estimates on the link between growth and employment of nearly one-to-one hold, a 35 percent increase in GDP can result in to an equivalent increase in employment. While such an equivalent increase in employment is based on certain assumptions about capital and labor intensity which would imply also significant structural changes in the Palestinian economy, the World Bank report argues that the estimated increase in the number of jobs caused by a 35 percent increase in GDP would still have a substantial impact on job creation given the existing and more limited structural change to the economy. This conclusion is further supported by the results of the ICA (see below).

West Bank and Gaza Investment Climate Assessment: Fragmentation and Uncertainty

16. The recently completed West Bank and Gaza ICA¹⁰ showed that the single largest obstacle to private sector investment and economic growth is political instability, the result of unresolved conflict and restrictions on movement and access to resources and markets. This has resulted in fragmentation of the Palestinian economic space, uncertainty, risk, and increased costs for businesses. Despite some positive aspects found in the investment climate, this overarching constraint continues to hamper private investment and job creation.

17. The Enterprise Survey data showed that Palestinian firms have relatively low capital intensity compared to countries at similar levels of development. Panel data from firms surveyed in 2006 and then again in 2013 showed that there was no significant growth in capital investment or annual employment. This relatively low level of capital intensity is offset by a relatively higher level of technical efficiency (total factor productivity), resulting in a more competitive level of labor productivity relative to comparator countries. Labor productivity is for example higher than Egypt, Yemen, and Tunisia in recent years, though lower than Lebanon or Jordan.

18. Closer examination of these measures revealed that there are wide disparities in productivity, capital intensity, and technical efficiency amongst Palestinian firms when compared by location, size, or sector. For example, East Jerusalem firms are sixteen times more capital intensive and have more than three times the value added per worker than those in Gaza. Technical efficiency for the median firm in East Jerusalem is about 55 percent higher than for a similar firm in the West Bank. The fragmented investment climate has resulted in fragmented productivity performance. The report also suggests that there is a potential opportunity to increase labor productivity to more competitive levels if firms can invest more, for example, in human capital, skills, and technology.

19. A result of this isolated, fragmented, and conflict affected investment climate is that firms often start small and stay small. The majority of domestic private sector jobs are often concentrated within low productivity service sector activities¹¹. Only 11 percent of formal firms have more than 20 workers, compared to 35 percent in comparator countries. Employment growth measured amongst panel firms surveyed indicated only an average of 4 percent employment growth from 2006 to 2013, which is particularly unremarkable considering a

¹⁰ The ICA was underpinned by two survey instruments – an Enterprise Survey of over 400 formal sector enterprises and another that surveyed over 400 informal enterprises. The Enterprise Survey included firms have five or more workers in the West Bank, Gaza, and E. Jerusalem.

¹¹ According to the “Jobs or Privileges report”, around 40 percent of all jobs are in these sectors.

population growth rate of nearly 3 percent, an already structurally high unemployment rate, and the fact that this sample represents a select group of firms that survived during this time period. Furthermore, according to the recently completed “Jobs or Privileges” report, the probability of non-farm micro firms to grow beyond ten employees within four–five years is only two percent in the West Bank and Gaza (compared to twelve percent in Lebanon for example). Informality also runs high, with nearly three out of five people in the Palestinian workforce holding an informal job.

20. Amongst its recommendations, the ICA highlighted the need to invest in market driven skills development, technology entrepreneurship and innovation. The Enterprise Survey results found a decreased level of innovative and business upgrading activities, such as training, amongst firms. For example, firms offering formal training had dropped amongst the panel firms surveyed from 2006 to 2013. The ICA recommends that sustainable workforce development should be secured through funding linked directly to results and accountability to the private sector. There should also be efforts to support investments in firm level capacity, as well as build a pipeline of growth-oriented entrepreneurs to feed the nascent entrepreneurship ecosystem. These efforts must be complemented by cross cutting reforms to help mitigate the effects of political instability or enhance aspects of the business climate that can be improved even under the current constraints¹².

Beyond Aid: A Palestinian Private Sector Initiative for Investment, Growth and Employment

21. This report based its analysis on the key assumption that political enablers would not be in place and, essentially, the Palestinian economy would need to develop over the short to medium term within the existing constraints imposed by the Government of Israel. This had specific implications for different sector growth assessments. For instance, in the case of agriculture, it is assumed that there would not be development of arable land in Area C and that dual use restrictions would impede optimal use of fertilizer with consequent diminished yields. The study highlights that, based on its analysis, 750,000 jobs will need to be created between now and 2030 just to maintain current unemployment levels, given the growing number of graduates that will be entering the labor force over this period. To reduce the unemployment level down to 10 percent the job creation target rises to 1 million. This is equivalent to a doubling of the current employment level.

22. Within this overall framework, the Beyond Aid study identifies investment opportunities with an estimated total investment cost of approximately US\$600 million in five sectors (agriculture, IT and digital entrepreneurship, tourism, construction and energy) with a potential employment impact over a 15 year period amounting to 150,000 direct and 220,000 indirect jobs. A brief summary further assessing the potential of these subsectors is included in Table 1 at the conclusion of this report. Key to mobilizing these investments - more specifically to leverage existing and planned private sector investment - is to identify ways and means to support the following enablers:

¹² The Doing Business Reform Memo of 2014 suggests several possible areas for improvement.

- **Human Capital:** Improvement in skills and workplace capacities, tailored to specific sector and investment project needs;
- **Infrastructure:** Targeted improvements to what infrastructure services that the private sector would traditionally expect to be financed by the public sector;
- **Regulatory Environment and Land Registration:** Particularly related to firm start-up and more efficient and cost-effective processes and procedures for land registration;
- **Access to Capital:** Particularly for start-up and early growth businesses;
- **Branding:** Challenge is to establish a “Palestinian” brand that surmounts the security concerns and perceptions and gets known for quality and reliability. Over the shorter term this is particularly important for the agriculture and IT and Digital Entrepreneurship sectors.

23. In conclusion, the different studies used as the basis for the discussions that took place under the DPJC points to some core challenges. To foster increased private sector investment, new approaches with better results are needed in terms of: (a) skills development and job placement and entrepreneurship start-up mechanisms through among others, better coordination with private sector and measurement; (b) addressing the political and commercial risks associated with the current economic fragmentation that inhibits private investment; (c) enhancing product quality and market access to augment demand for Palestinian output.

IV. SOME OPTIONS FOR THE FUTURE

24. A number of potential areas for new initiatives arose out of the DPJC exercise. In addition to the ongoing need to improve those areas of the investment climate that remain within the PA control, municipal development¹³, innovations to foster private sector investment in high potential “job-creating” sectors and to improve the supply response to private sector demand for specific skills were all highlighted. Arising out of these conclusions and, further to discussions with the Deputy Prime Minister’s office, the MOFP and the Ministry of Labor, the Bank Group undertook to revisit the current status of the skills market in West Bank and Gaza with a view to identifying potential new initiatives that could foster greater private sector engagement in the supply and demand for skills and foster improved jobs outcomes. What follows is a summary of the initial results of this study which were presented in West Bank and Gaza in July/August 2015.

25. There is a significant shortage of employment growth in the West Bank and Gaza. In response there have been sustained efforts to provide young people with additional training and skills development to make them more attractive to potential employers. As a result, the skills training market is crowded, with multiple providers delivering a range of programs at different stages of the journey from education to employment. There is currently little robust evidence

¹³ Considerable work is currently underway by the World Bank to address the municipal development challenge, in particular with the preparation of the Municipal project.

about the added value of different approaches, many of which are implemented “en masse” with little room for coordination between parties or tailoring according to specific needs of the labor market. Where employment outcomes information is collected, it is, for the most part, self-reported, and indicates results which do not necessarily reflect realities of the market indicated by other stakeholders. Thus even though skills training is relatively well provided for in the West Bank, a number of key gaps in the market were observed, in particular:

- **Skills Mismatches.** The World Bank’s 2014 ICA highlighted the continuing mismatch between workforce skills and market needs. Additionally, as noted above, during the public-private Jobs dialogues, leading Palestinian private sector employers identified this mismatch as one of the principal reasons constraining their absorption of new labor market entrants into employment. During these discussions, the private sector stressed that this constraint is not limited to technical competence, but also includes a lack of critical soft skills needed to make young job seekers effective in jobs.
- **Matching Training to Jobs:** There are extensive donor-supported programs to provide skills training, but less support for actively matching training to future private sector demand, and for boosting recruitment of appropriate participants into trade occupations and training courses. There is also a relative shortage of initiatives that combine skills training with efforts to promote job creation for those skills—for example, by promoting entrepreneurship among start-ups through basic financial and business plan training and limited seed capital and start-up support.
- **Specific Sector Gaps in Training:** Although the major potential for job creation is through a systemic effort to integrate skills training with job creation, there are sectors where there is a need for specific enhancement of technical and vocational training. These include IT, maintenance, construction, manufacturing, agriculture, design, and food processing, solar energy, gardening, and food technology. The IT sector (for example design verification) has particular potential for improved jobs demand.

26. The findings of the assessment also indicated that the challenge is not just about better skills development. On the margin this can facilitate greater employment absorption, but in isolation cannot lead to systematic or large-scale improvements in employment opportunities. There needs to be clear linkages with new private sector investment both to ensure that investment is able to secure the quality of labor it needs, and to encourage investors that suitable labor will be available. Achieving this will require among others, a very different and much closer collaboration with the larger Palestinian companies to align training with planned investments that can create significant labor demand. At the same time, given the limited number of sizeable employers in the West Bank and Gaza, it will be important to stimulate entrepreneurship and improve skills training so SMEs (who employ over 80 percent of private sector labor) can employ additional staff, even if only one or two per SME.

27. The implication is that any new initiative to address the job challenge in the West Bank and Gaza that would be additional to what is already on the ground would need to comprise a minimum of three coordinated actions. These include: (a) New Modalities of Public-Private

Cooperation to more efficiently and systematically identify supply and demand gaps in the job market; (b) Implementation Flexibility—to allow for targeted skills training that can close these gaps to be provided in a time-wise and measurable manner that enables assessment of responsiveness of skills support to a regularly changing market demand; (c) complementary innovative financing instruments—that can serve to mitigate the fragmentation and risk that constrain the increased private sector investment needed to generate growth and new jobs. These areas of further assessment and development following on from the results of the DPJC exercise.

Table 5.1. Sector Potential for Job Creation in the West Bank and Gaza

Sector	Pros	Cons
Agriculture	<ul style="list-style-type: none"> Exported agricultural goods regarded as very high quality, for example Palestinian olive oil considered best in class Unmet export market demand for organic and Fairtrade products, which sector is well placed to meet Easily implemented agricultural practices have been proven to stabilise yields, improve product quality, ensure consistency and reduce unit costs of production 	<ul style="list-style-type: none"> Sector dominated by family and small producers with limited incentives/ capacity to expand workforce or invest in improved production practices Identified growth in export revenues is unlikely to lead to increased job creation in the food system value chain in the short term Restricted access to water and land along with the high transaction costs for distribution are considerable constraints to sector growth
Banking	<ul style="list-style-type: none"> Considerable scope for expansion of retail banking and insurance to bring West Bank and Gaza in line with comparable countries in terms of market penetration Demand for middle- and senior-level talent with management and specialist skills to help lead product diversification and develop sector's human resources 	<ul style="list-style-type: none"> Limited appetite within the banking sector to diversify product offerings given current high profitability (due to high spreads) and low competition Current entry-level graduate positions generally already filled with core-training delivered in the first 6 months of the job
ICT	<ul style="list-style-type: none"> Location, and lower wages, make West Bank and Gaza attractive outsourcing market for Israeli and other international firms Despite 4,000 engineering graduates, IT companies face shortage of suitable candidates—venture capitalists complain of low quality candidates lacking innovation and soft/technical skills IT sector reluctant to invest in training graduates, but MNCs won't extend contracts without better workforce 	<ul style="list-style-type: none"> There is good potential for job creation within the sector but the greatest skill gap is currently for a low number of high value, highly skilled jobs Access to capital is severely restrictive due to prohibitively high coverage ratios common in lending practices and lack of experience and ability of banking sector to undertake due diligence on ICT investments Shifting technical proficiency requirements for sector work require regular curricular review, difficult where communication between educational systems and industry is lacking
Tourism	<ul style="list-style-type: none"> Potential to increase employability through practical training and private sector involvement in training course design Large infrastructure investment currently underway at Jericho Gate with significant job creation expected (c. 3,000 jobs); potential for improved quality of tourist services in Bethlehem 	<ul style="list-style-type: none"> External limiting factors already currently affecting the sector, for example movement restrictions and perceived security concerns Uncertainty about potential for increased demand for overnight stays (although demand might increase with better quality supply)

Source: The Portland Trust (2015); West Bank and Gaza.

Annex 6: Finance for Jobs - Prospective Financial Enhancement Instruments

The Current Environment

1. The F4J initiative will build on and complement ongoing Bank Group initiatives in support of financial sector development and job creation, including: (a) the Micro Small Medium-sized Enterprises (MSME) TA Facility which supports the Palestine Monetary Authority (PMA) in the design and implementation of a donor funded partial credit guarantee facility for Gaza to encourage Bank lending to the private sector; (b) ongoing institutional strengthening support through economic and regulatory reform projects; and (c) the Abraham Path project, which supports the development of a long distance walking trail in the West Bank as an experiential and cultural tourism asset, ultimately aiming to create jobs and increase incomes for the people and communities located along the path including women and youth. The F4J initiative has also been designed keeping in mind the lessons learned from the recently closed Government Services for Business Development project, namely the importance of ensuring flexible market-responsive implementation arrangements with a strong private sector orientation.

2. The current IFC portfolio has increased almost eight fold, from US\$20 million in 2 companies in 2008 to almost US\$157 million in 6 companies at present. The portfolio is concentrated in financial markets (including microfinance) and infrastructure (telecom) sectors and clients include Bank of Palestine, Wataniya Mobile Company, Palestine Growth Fund, FATEN Microfinance, The National Bank, Affordable Mortgage and Loan Co, divided into US\$44 million debt, US\$18 million equity, and US\$95 million short term finance.

3. In terms of the wider donor support to the private sector and job creation, Table 6.1 below provides an overview of the key complementary donor projects currently being implemented in the West Bank and Gaza.

Table 6.1. Key Relevant Donor Programs in the West Bank and Gaza

Agency/Program Name	Program Description
BMZ and GIZ Private Sector Development Program (PSDP)	Co-financed by CIDA, the program funds capacity building for MoNE, as well as private sector business organizations and chambers of commerce, to improve their ability to represent and provide services to businesses.
BMZ-EU-GIZ Promotion of Vocational Training and Labor Market Programme	Funded at €4m, GIZ is supporting public TVET institutions strategically to build capacity to deliver demand-oriented training (for example through curriculum design) that will bridge existing and emerging labor demand-supply gaps, with a focus on youth unemployment. Alongside this work, they are building capacity at a local level through establishing LET councils to identify priority areas and appropriate interventions.
United Kingdom-Department for International Development -EU Palestinian Market Development Program (PMDP)	United Kingdom-Department for International Development and the EU are funding a five-year program in cooperation with the Ministry of National Economy and implemented by DAI Europe. The program focuses on improving private sector competitiveness through technical assistance and matching grants. As of June 2015, approximately US\$3.1 million had been committed in matching grants. The open matching grants window had received 349 applicants and signed 138 GAs. In November 2014 the program launched a 'Back to Business' window for Gaza firms affected by the conflict. Over 700 applications had been received by March 2015; of which 104 signed GAs.
JICA Project for BDS	JICA and the Ministry of National Economy are implementing a three-year

Enhancement for MSMEs	project in partnership with the Palestinian Federation of Industries and the Palestinian Federation of Chambers of Commerce, Industry, and Agriculture to enhance BDS to MSMEs.
USAID COMPETE	The five-year US\$35 million COMPETE project aims to strengthen the competitiveness and export potential of key sectors including agribusiness, ICT, tourism, and stone/marble through firm-level assistance. The project also intends to work with firms in Gaza to enable them to remain in business and return to the international market when conditions allow.
USAID Youth Entrepreneurship Development Program	A five-year US\$15 million initiative that aims to improve employment, entrepreneurship and civic engagement opportunities for Palestinian youth aged 14–29.

4. What is important to note is that—for the most part—these initiatives focus on technical assistance to the PA and/or directly to businesses. What is absent—or at least minimally addressed—is new financing products that can strengthen and incentivize market demand, encourage risk taking and first movers within the private sector. This is the space that the F4J is looking to address.

New Developments: Innovative Finance and the Global Development Agenda

5. The UN’s post-2015 development agenda has coalesced around a set of Sustainable Development Goals (SDGs) that target significant progress by 2030 on the most critical economic and social challenges facing developing countries. The resource implications for making progress on, and ultimately achieving, the SDGs in this timeframe will be significant. Estimates for the total investment needed ranges from US\$3 to US\$4.5 trillion per year. Official Development Assistance (ODA) from donors and public sector governments alone will not be sufficient to meet these demands. At the same time, only a portion of the world’s private sector assets including those of banks, pension funds, insurers, foundations, and corporations are currently invested in the sectors targeted by the SDGs in developing countries. Increased private sector participation, as well as a renewed focus on results, will be needed to bridge the global development financing gap and ensure resources are put to their most effective use.

6. Even with abundant financial resources, however, effectively and efficiently putting those resources to use and achieving measurable, sustainable results continues to be an ongoing challenge. In addition to the mobilization of additional financial resources, a shift is also needed in the way that this capital is deployed, particularly in making it more effective and oriented towards results. In this respect, the F4J SOP is looking to develop and put in place more results-based financial “enhancement” products that serve to crowd-in private investment and expertise while also capturing wider social returns that come from employment through market-based engagement. Getting the balance between social return and market incentives is at the core of the challenge. The F4J will, to this end, look to develop and test-implement the following financial instruments: (a) Wholesale Level Enterprise Ecosystem Matching Grant Program and possible equity contribution to Start-Up and post-Accelerator investment funds; (b) DIBs; and (c) Other Enhancement Financing. The deployment of these instruments will be tailored to meet job creation objectives, recognizing both the economic and social externalities of job creation.

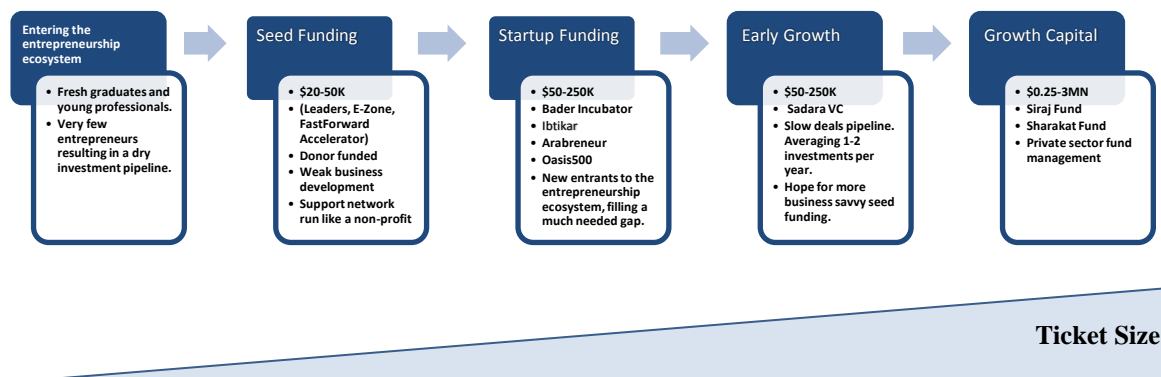
A. Wholesale Level Enterprise Ecosystem Matching Grant Program and possible equity contribution to Start-Up and post-Accelerator investment funds

Background

7. A strong entrepreneurship ecosystem is characterized by a solid deal flow and an adequate number of financiers across the lifecycle of enterprises' growth. While there has been an increase in equity financing available to startups at the early growth and growth capital stages in the West Bank and Gaza, these financiers often report weak demand and dry investment pipelines. There are a dearth of viable ideas and entrepreneurs entering the ecosystem and surviving to later stages of the firm lifecycle. This has consequently led to a lost opportunity, as VC and PE funds in this area are not being deployed. One PE fund even exited the market (Abraj Capital).

Entrepreneurship Ecosystem in the West Bank and Gaza

Figure 6.1. Deals Pipeline



8. Box 4 provides an overview of the existing sources of financing and human and professional resources that currently support the Palestinian entrepreneurship ecosystem. Despite an upswing in entrepreneurial activity in recent years, a critical funding gap in the ecosystem has been between the acceleration stage, typically covered by accelerators and incubators, and the venture capital and later stage investors. Recently two organizations have been established to address this gap: Bader (Rawabi) focused on the ICT sector in the city of Rawab, and Ibtikar (Innovation Fund) described further in Box 4. In addition there are some angel investors in the market, though they mostly lack the technical expertise needed to provide the necessary capacity building and BDS to firms. The proposed matching grants would be implemented through an investment fund instrument already in place.

Box 4. Summary of the Entrepreneurship Ecosystem Stakeholders in West Bank and Gaza (non-exhaustive)

Financing

While the micro-finance sector is comparatively well established, financiers providing venture capital, PE, and seed financing are relative new-comers. Two large funds that provide equity financing include the PA-backed Palestinian Investment Fund (PIF) and Siraj. The PIF houses a US\$90 million debt and equity investment fund “Sharkat” that was established in 2013 and is dedicated to industry, agro-business, IT and microfinance firms in the micro, small and medium-sized sectors. Siraj, which has been active since 2011, provides over US\$90 million of direct equity investments for start-up, distressed, and SME companies and also targets large enterprises across various economic sectors.

Sadara Ventures is one of the only venture capital funds for Palestinian businesses and currently provides financing to entrepreneurs focusing on startup companies in the internet, mobile and software sectors with prospects for economic development and job creation. Sadara has been in operation since 2011 and manages approximately US\$29.5 million in funds from investors including Google, George Soros and the European Investment Bank among others. The venture firm has invested so far in at least six different companies, including Souktel a mobile tech venture that matches job seekers and employers through mobile phone technology.

Seed capital financing is available through several mid-size investment funds including Ibtikar, Arabreneur and Badar. Ibtikar is an investment fund with US\$7 million in funds already committed (US\$10 million total targeted over four years) for early stage innovative ventures focusing on ICT (with deal sizes ranging from US\$40K for direct and accelerator services and US\$100–US\$800K for post acceleration services), while Badar focuses on financing growth of ICT start-up companies at the incubation stage. Arabreneur provides a range of services including a venture fund that gives investments between US\$50–US\$150K for companies that graduate from the incubation phase and are ready to sell their products.

SME financing is available through a few providers, including traditional banks (the National Bank and the Bank of Palestine) and the earlier mentioned PIF.

Human and Professional Resources

In addition to direct financing, support organizations focus on providing human and professional services for companies at different stages.

Incubators/Accelerators

There are a number of incubators and fewer accelerators that exist that provide start-up and early stage companies a range of management services (mentors, business resources, direct business development assistance) in addition to office space (business offices and collaborative workspaces). Many of the incubators and accelerators receive funding from outside donors, including USAID, infoDev, the Korean government and Mercy Corps to name a few, which are then funneled through local institutions and Universities (including, for example, the An-Najah National University and the Islamic University of Gaza who each run their own facilities—the Korean Palestinian IT Institute of Excellence and the Business and Technology Incubator, respectively). Many of the existing incubators have an ICT focus while others provide general services to entrepreneurs in any sector and/or target certain populations (Tomorrow’s Youth Organization, for example, focuses on women entrepreneurs).

Support Organizations

A large number of support organizations focus on providing generalized services with the overarching goal of fostering economic and community empowerment. A handful of these organizations provide direct BDS to Palestinians. Established with initial funding from GIZ, the Small Enterprise Center is a non-profit that provides technical support for the development of start-ups and SMEs. Another organization, Leaders, was established in 2002 with the goal of supporting digital development and entrepreneurship through development of a technology park and a start-up accelerator program—FastForward- that provides seed investment in addition to office space, office resources, educational material and advisors. The Business Women’s Forum (BWF) of Palestine is an NGO that strives to create a supportive environment for business women in the West Bank and Gaza by building capacity. The BWF provides a range of service offerings including preparing feasibility studies, evaluating available local and international marketing opportunities, offering legal consultation services, training/skill upgrading and pre-incubation of high growth projects.

Rationale for an EE-MG for the West Bank and Gaza

9. The rationale for the entrepreneurship ecosystem support financed in the F4J project derives largely from evidence that while many donors are supporting entrepreneurship activities in the West Bank and Gaza, there is a clear gap in providing early stage support for start-ups, which are often ideally provided by angel investors or seed funds. Financiers mostly fund projects with capital requirements of US\$250,000 and higher. Existing early stage financiers in the Palestinian territories often report weak demand and dry investment pipelines. Furthermore, organizations supporting early stage activities often lack a strong private sector orientation and thus longer-term sustainability is uncertain. While additional early stage investors have recently moved in to fill the pre-venture capital funding gap such as Ibtikar Bader (Rawabi), startups are in need of additional advisory services and technical assistance in order to improve their absorptive capacity for putting the equity investments they are receiving to more productive use.

10. The specific rationale for channeling grants via existing investment funds is three fold:

- **Enhancing Viability of Early Stage Investment Funds:** The synergies achieved through partnership would maximize the use of funds. The matching grant contributions would free up the capital of the various “investment intermediary” entities to focus on financing of projects and product development rather than business support or the development of viable business plans.
- **Closing Financing Gaps in the Entrepreneurship Ecosystem:** Specifically in supporting availability of post-accelerator financing and mentorship where venture capital and PE investors typically would not engage. This would allow for a better success rate of firms past the initial acceleration/incubation period and provide the BDS necessary to grow riskier ventures which would otherwise not be funded.
- **Fostering partnership with existing private sector entities:** The intervention would ensure greater sustainability and avoid the replication of donor driven programs which lack private sector orientation and technical experience.

11. It is also important to recognize and incorporate lessons learned from the Bank Group involvement to date in matching grant initiatives. While the EE-MG is a pilot that differs from more standard matching grant instruments insofar as the grants are channeled through investment vehicles rather than individual entrepreneurs, it will seek to take into account general lessons learned from previous World Bank-financed interventions. These lessons, summarized further in Box 5 include integrating sound diagnostic work to inform the design of market-driven approaches, the integration of the program with national strategy, clear eligibility criteria and involvement of the private sector.

Box 5. Internal Evaluation Group (IEG)¹⁴ Lessons Learned from World Bank Matching Grant and Innovation/Entrepreneurship Programs

Matching grants are a popular risk-sharing mechanism to funnel investment to the private sector and are regarded as effective instruments to encourage innovation in sectors which are high-risk and/or have low returns. Some of the benefits of using matching grant instruments include: (a) providing incentives to upgrade entrepreneurial activities in firms that would otherwise not be linked to research and development or other sources of knowledge; (b) allowing for greater control of activities and actors that can be supported (for example more innovation in a particular area, growth in certain sectors) and; (c) encouraging collaborative links among research institutions, universities, and firms, with a view to facilitate the introduction of new products and processes into the market. Based on an internal IEG review carried out in 2013 of closed World Bank projects that supported matching grants, some suggestions were proposed to improve the overall design of these instruments in World Bank projects (listed below).

- (a) **Sound Diagnostic Work** - Successful project performance of matching grants was attributed to sound diagnostics. For example, in a renewable energy project in China, diagnostic work helped to inform the design of market-driven approaches for renewable energy technologies.
- (b) **Integration with Broader National Strategy** – Matching grants work well when integrated within a broader sector or national strategy. In China, lack of a consistent national policy to support development in the renewable energy sector led to an underestimation of the policy barriers, resulting in a smaller contribution of the matching grant intervention in the development of the sector.
- (c) **Clear Eligibility Criteria** - Clear eligibility criteria should be established and communicated to grantees to ensure that the right projects and right firms are selected. For example, in Indonesia a matching grant program failed to improve performance of SMEs because lack of clear eligibility criteria led to selection of beneficiaries whose needs were not consistent with the objectives of the scheme.
- (d) **Involvement of Private Sector** - Many successful matching grant schemes have involved (or been implemented) by private sector players familiar with the industry and review selection process. Implementation problems often include complex procurement and reimbursement procedures, political capture and bureaucratic problems. Some of these risks can be mitigated through private sector participation.

The above-mentioned lessons have been integrated in the operational design of the EE-MG. Firstly, the grant instrument aligns with the job-focused agenda of the PA's "Integrated Strategic Program for Employment in Palestine" through the stimulation of investment opportunities and development of local entrepreneurship. Furthermore, the design of the grant scheme has been guided by the findings of the 2014 ICA which highlight the need to find innovative ways to mobilize private investment in support of job creation. With recent evidence supporting the importance of business start-ups and young firms in job creation, the grant scheme will be designed to support those investment funds and investment fund grantees that will make contributions to job growth. Diagnostic work has been further integrated under subcomponent Component 2.1, which will finance feasibility studies to determine which specific sectors could be supported to build a pipeline of job-focused investments. This diagnostic work could be integrated into a potential scale-up of the grant if it proves to be successful. Moreover, the operational design of the grant scheme will directly involve private sector. Not only will the grant be implemented by the PIA (which will be recruited from the private sector), grants will be channeled through existing investment funds to ensure private sector interest, appropriate technical expertise and familiarity with the investment context. Lastly, the grant OM will define eligibility criteria for investment funds (and investment fund grantees) that will be clearly communicated. The eligibility criteria will be consistent with the overarching objectives as defined through the results framework.

Source: IEG "WBG Support for Innovation and Entrepreneurship" 2013.

¹⁴ IEG is an independent evaluation group of the World Bank charged with evaluating the activities of the World Bank Group with goal of assessing the Bank Group's performance and identifying lessons for improving Bank Group operations.

B. Development Impact Bonds

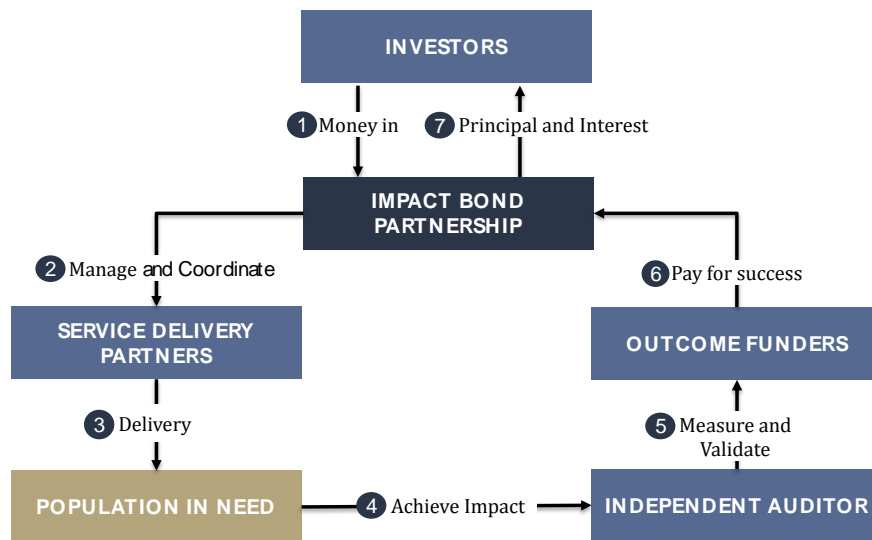
Background

12. SIBs, and more recently DIBs, have emerged within the last several years as innovative financing models that leverage private sector investment and focus on achieving results. Upfront capital is provided by private investors who are repaid only if agreed-upon social and economic outcomes are achieved. This shifts the nature of the development challenge from a problem to an investible opportunity. SIBs and DIBs therefore differ from more traditional results-based financing in that they introduce incentives for performance based on investors' desire to recover their investments and maximize their returns. As a result, investors bring a more effective, efficient, and dynamic private sector mentality to the delivery of the intervention. SIBs are typically used in developed countries contexts where a government pays back investors, while in the DIB model, donors or foundations repay investors (though a combination of a government and donor(s) is possible as well). Since the first SIB was launched in 2010 in the UK, over 40 SIBs have been deployed in seven countries across various sectors. A number of DIBs, including the proposed DIB under the West Bank and Gaza (WB&G) F4J SOP, are currently in the exploratory and design phase. It is important to note that DIBs and SIBs are not "bonds" in the traditional sense (that is, debt securities that pay a fixed interest rate until maturity). Impact bonds should rather be thought of as equity-like investments that offer repayment to investors only on the basis of results achieved, thereby carrying higher levels of risk and return than traditional bonds.

13. In a typical DIB model, stakeholders first agree on a common development goal, including the outputs and outcomes needed to achieve the overall goal. Private investors provide upfront financing in order to deliver the services needed to reach these outputs and outcomes. They work with service providers in actively managing and measuring the intervention, making adjustments needed along the way. If the intervention is deemed a success, subject to verification, then the private investor is repaid by the donor(s), also referred to as an 'outcomes funder.' The investor can also earn a return on their investment if the outcome is more successful. An intermediary organization coordinates the various stakeholders—the private investor, outcomes funder, service providers and the performance management. Because investors have "skin in the game," they are incentivized to actively monitor progress and focus on achieving results. The below diagram illustrates a generic DIB arrangement.

14. Though impact bonds are relatively new instruments that will ultimately need to be tested and measured, evidence is mounting in favor of their effectiveness. A recent report by the Brookings Institution examined experiences with SIBs and DIBs to date and found evidence that a number of the development claims made about DIBs appear to hold up. Most importantly, the report found that impact bonds lead to a shift in focus to outcomes and increased transparency and accountability about achieving results. Second, by bringing the private sector mentality into the provision of services, impact bonds drive more effective and efficient performance management. Third, evidence shows that impact bonds stimulate collaboration amongst stakeholders. They also support the development of strong M&E systems. And finally, DIBs can shift the focus of government away from remedial or corrective services, towards more proactive, preventative services. Each of these reasons alone could have great potential for shifting the way that governments and donors do business.

Figure 6.2. Typical DIB Structure



Source: Social Finance (2015).

Rationale for a DIB for Skills Development for Youth in the West Bank and Gaza

15. A DIB has been proposed to address youth and female unemployment outcomes in the West Bank and Gaza under the F4J SOP. Capacity building in preparation for the DIB would take place under F4J, while deployment of the instrument would commence under F4J II. The proposed DIB would be focused on enhancing the skills of the Palestinian workforce; specifically an estimated cohort of 1750 youth, aged 18 to 29 years (a minimum of 30 percent women). The rationale for deploying a DIB in this sector stems from evidence found not only in recent analytical work (for example the West Bank and Gaza ICA, the SABER report, and Beyond Aid report), but also derives largely from ongoing consultations with leading private sector stakeholders who have indicated that a lack of private-sector oriented skills development and skills mismatches, particularly amongst youth and women, to be one of the key hindrances to private sector employment outcomes. The recently completed Palestinian Jobs Dialogue that was conducted in partnership with the World Bank Group, PA, and Palestinian private sector confirmed this as a key constraint in need of innovative public-private solutions.

16. Evidence shows that there are available job openings in the Palestinian labor market, however, graduates often do not possess 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 (43 percent overall; 19 percent for women) and unemployment remains high (27 percent). Youth and women experience particularly acute labor market outcomes. Unemployment is high amongst youth aged 20–24 years at 45.6 percent, with the highest unemployment rate among females with 13 years of education or more, at 47.1 percent. In addition to filling current openings, there is also a need to position the young workforce for future private sector investments that will require a job-ready skilled workforce.

17. One of the underlying causes for suboptimal outcomes in the Palestinian labor market is that the skills development sector—which includes training providers, TVET schools, universities, the Ministries of Labor and Education, and donors funding skills related interventions—remains underdeveloped, uncoordinated, and inadequately linked to the private sector. As the recent SABER Report found, the West Bank and Gaza scores low in terms of “fostering a demand-driven approach,” meaning that there are few opportunities for industry and other private sector players to play an active role in the planning, oversight, and delivery of workforce training. At the same time, strengthening the supply side alone will not ensure enhanced job outcomes. Private sector investment will need to be stimulated in order to create new jobs in the labor market and shift away from reliance on the public sector for employment.

18. There is little robust evidence that traditional donor interventions to date to address these issues in the skills development sector (totaling over US\$140 million since 2001 in the West Bank and Gaza) have yielded the desired outcomes. There have been a range of programs delivered across the various stages in the journey from education to employment, though many of them have been implemented with little coordination or sufficient linkages to the needs of the private sector. Employment outcomes information and data has been ad hoc and mostly self-reported, making it difficult to ascertain the value added of various approaches. Data collection on results and outcomes has also been largely short term (approximately 12 months or less) and offers a simple ‘before and after’ snapshot of program impact. A DIB model offers a number of advantages in the West Bank and Gaza skills training context, including:

- **Up-front capital.** Investors provide risk capital, repayable if and when the program succeeds. This introduces a private-sector perspective, and ensures availability of affordable working capital to fund and scale-up “best-in-class” interventions.
- **Results metrics.** The program is designed to have clear output and outcome metrics, and payments are tied to achievement of defined training and employment results. These are then the sole determinant of the success of the project, not the extent to which pre-determined inputs are delivered.
- **Adaptive performance management.** Adaptive management enables flexible allocation of program resources, driven by continuous program assessment and management. Real-time data collection allows intensive monitoring, management and adaptation of projects. Given that the exact package of interventions students require will vary depending on existing skillsets and business sector needs, the DIB builds in the flexibility and data tracking needed to tailor the intervention approach to beneficiaries’ needs in order to deliver results.
- **Stakeholder coordination.** Success of the intervention will depend upon the coordination of multiple service providers and stakeholders working together to achieve a common objective. The DIB model offers a clear management and governance structure, with a specified DIB performance manager having overall responsibility for bringing actors together to deliver the intervention.

C. Enhancement Financing

19. Public sector support for private investment initiatives can be occasioned for a number of public policy reasons. Table 6.2 provides further details on public policy rationales that can motivate a government to make financial contributions to private investments. The key is to determine the public interest driver for deploying public funds in support of projects for which there would also be a return to private investment. This public investment contribution can come in different forms, via debt, grants, guarantees, equity, and fiscal instruments. Decisions as to which instrument to use will be a function of a number of factors, including, in addition to the public policy objective, the specific requirements of the project to be financed and the political, legal, and institutional context in which the government is operating.

Table 6.2. Public Policy Reasons for Enhancement Financing

RATIONALE	EXPLANATION
Capturing Externalities: Public funding to meet social policy objectives.	Where the investment provides utility not just to the private sector investor, but generates a positive externality to other members of a society. This is the case for investment that not only create a private return to those who are employed as a result of the investment, but because other wider social benefits—for instance in the form of human capital accumulation, or social cohesion or jobs for more vulnerable segments of the labor market that are public policy priorities—are realized.
Overcoming Market Failures in providing infrastructure financing: Public funding can be deployed by government to address specific risk factors that accompany long-term investments which cannot be adequately financed by private sector due to externalities that cannot be incorporated in private returns.	Infrastructure provision is a core public good due to the broader social benefits that it generates. Its absence can limit private investment opportunities insofar as the private investment cannot profitably absorb the extra costs entailed in financing core infrastructure requirements needed for the investment to provide an adequate return to the investor.
Mitigating Political and Regulatory risk: Government can be required to address a subset of the wider market failure to price certain government-sourced risks. It specifically relates to information asymmetries associated with political and regulatory risks.	Guarantees can be required where a private sector investor has uncertainty regarding government readiness or capacity to ensure certain political and regulatory predictability.

20. Based on initial assessments undertaken into prospective private investment opportunities in the West Bank and Gaza, the potential exists to foster additional investment if suitable action can be taken to assist the private sector to address the different constraints currently hindering the investments from taking place—be it capturing externalities, overcoming market failures (particularly in infrastructure) and/or political and regulatory risk. To this end, the F4J will be looking to deploy different forms of financing “enhancements” needed to close the “viability gap” preventing the private investment from proceeding.

21. Given the wider political economy context of the West Bank and Gaza, there has been strong demand for guarantees to mitigate political risk. This is evidenced by the active and successful MIGA program in the Palestinian territories. Box 6 summarizes this program.

Box 6: MIGA Program in the Palestinian territories

The West Bank and Gaza Investment Guarantee Trust Fund resumed activities in 2010 to offer political risk insurance (PRI) to both local and foreign investors. The initial capacity of US \$26 million has been issued to active projects or committed to projects in the pipeline.

Active guarantee contracts are concentrated in the agribusiness and manufacturing sectors, with seven projects valued at \$14 million in guarantees and another two deals in the pipeline valued at \$12 million in guarantees. The active guarantees are supporting over \$43 million in private investments and the creation of over 370 employment opportunities (not including indirect employment opportunities). Current projects supported include:

- Nakheel Palestine for Agricultural Investments for investments in a dates plantation project in Jericho;
- National Beverage Company to cover the company's retail location in Gaza which sustained partial asset damages and business interruption in the recent Gaza conflict;
- Al Haram Modern Plastic Manufacturing Company for a facility in Hebron that produces cups and containers for local dairy producers;
- Al Jebrini Cheese Manufacturing Company, the first local dairy producer in Hebron;
- Zmzm Biodegradable Plastic Manufacturing Company to expand the current facility in Hebron to produce biodegradable plastic sheets and bags for export;
- Beit Jala Pharmaceutical Company to expand and add two new product lines add two new production lines for eye drops and sterilized ampoules produced according to European Good Manufacturing Practices (EGMP);
- EFG for Renewable Energy Company to cover the construction and operation of a biogas renewable energy facility.

Two projects in the pipeline include a flexible packaging facility in Bethlehem and a beverage manufacturing facility in the Gaza Strip.

In order to continue supporting the private sector, MIGA is seeking to replenish the fund at \$50 million, though no donor commitments have been secured yet.

22. Beyond the political risk constraints, current assessments of private sector investment pipeline projects covering light manufacturing, tourism, agriculture and ITC also indicate a mix of both externality and infrastructure gap factors to be factors to take into consideration in determining the merits of providing enhancement financing support to ensure these investments proceed. F4J financed CBA analysis will be undertaken and pay particular attention to the job-related externalities generated by the prospective investments. Enhancement financing would then be considered. The form of this financing will vary, according to the overall optimal financing structure needed to carry the investment forward. It could, for instance, cover the cost of infrastructure that would otherwise have been provided by the public sector and/or other contributions to the overall financing package as needed to ensure a reasonable return to the investor while also ensuring the social returns are realized.