



Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 25-Jul-2023 | Report No: PIDA36591



BASIC INFORMATION

A. Basic Project Data

Country West Bank and Gaza	Project ID P181354	Project Name Innovative Private Sector Development II	Parent Project ID (if any)
Region MIDDLE EAST AND NORTH AFRICA	Estimated Appraisal Date 18-Jul-2023	Estimated Board Date 20-Sep-2023	Practice Area (Lead) Finance, Competitiveness and Innovation
Financing Instrument Investment Project Financing	Borrower(s) THE PALESTINE LIBERATION ORGANIZATION (FOR THE BENEFIT OF THE PALESTINIAN AUTHORITY)	Implementing Agency Ministry of National Economy through a private sector implementing agency	

Proposed Development Objective(s)

To improve economic opportunities for tech enabled startups and innovative SMEs, and individuals in the digital economy in the West Bank and Gaza.
 For the purposes of this project economic opportunities include access to the following resources: (a) early-stage finance, (b) market access activities, (c) mentorship, (d) skills enhancement training, (e) employment matchmaking, and (f) streamlined formal business registration.

Components

Entrepreneurship Ecosystem Development
 Building an Outsourcing Hub in West Bank and Gaza
 Project Management

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	14.50
Total Financing	14.50
of which IBRD/IDA	0.00
Financing Gap	0.00



DETAILS

Non-World Bank Group Financing

Trust Funds	14.50
Palestinian Umbrella for Resilience Support to the Economy M	4.00
Special Financing	10.50

Environmental and Social Risk Classification

Moderate

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

Country Context

- The political context in the West Bank and Gaza (WB&G) remains stagnant and unsettled.** The peace talks between the Palestinians and Israelis remain stalled. The position of the Israeli government formed in December 2022 on key issues has exacerbated the uncertainty regarding future developments. Recurrent escalations of hostilities have increased tensions across WB&G. Internally, the Palestinian polity still suffers from political division with Fatah-led PA governing the West Bank and Hamas constituting the de facto authority in Gaza since June 2007. Since then, the Palestinian legislative council has become inactive, and legislation has been delivered by Presidential decrees. Attempts at reconciliation and election renewal have not been fruitful to date.
- In 2022 the Palestinian economy continued to grow, albeit at a slower rate than in 2021.** Real Gross Domestic Product (GDP) growth in the territories reached 3.9 percent, year-on-year, in 2022 -- down from 7.0 percent in 2021. The continued recovery was driven by increased private consumption due to relaxed COVID-19 restrictions, and an increase in the number of Palestinians working in Israel.
- Unemployment and poverty rates continued to slowly recede from the 2020 peak but remain high, especially in Gaza.** Unemployment reached 25.2 percent in Q1 2023 in the Palestinian territories. This masks a wide regional divergence with unemployment in the West Bank reaching 14.0 percent while attaining 45.9 percent in Gaza, reflecting the difficult conditions in the Strip caused by the severe movement and access restrictions that have resulted in a near-blockade. Gender and age powerfully affect employment outcomes. Seven out of ten males participated in the labor force in Q1 2023 compared to two out of ten females while 55.0 percent of female and 31.9 percent of male youths aged 15-29 were unemployed. World Bank estimates show that poverty in the West Bank and Gaza peaked at 26.5 percent in 2020, when using the international poverty line of US\$6.85 per day. By



2022 this had reduced slightly but was still significant at 24.5 percent of the population, or around 1.5 million people. In Gaza, 80 percent of residents are dependent on international aid.

4. **Climate-related risks are also a growing concern for the territories' future.** The West Bank and Gaza's geographic location in the Eastern Mediterranean region, coupled with its arid climate, makes it particularly vulnerable to the impacts of climate change. Rising temperatures, changing rainfall patterns, and increasing frequency and intensity of extreme weather events such as droughts and floods are some of the major risks that the territories face. It is projected that by the end of this century, a warming ranging from 1.8 to 5.1 C is likely; annual precipitation rates are likely to decrease by 10 percent in the 2020s, and 20 percent by 2050, which will increase the risk of summer droughts. These risks can have serious implications for agriculture, water availability, and public health, and can also exacerbate existing socioeconomic and political tensions in the region.

Sectoral and Institutional Context

5. **Private investment and private sector activity have been constrained by instability and access to finance and are concentrated mainly in low productivity subsectors with weak job growth potential.** Private investment has averaged only 15 to 16 percent of GDP¹ in recent years, while foreign direct investment (FDI) averaged only 2.1 percent of GDP as of March 2022. 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 2021.)² Domestic private sector investment has gone into low-productivity sector, such as agriculture and stone cutting which, while providing livelihoods for a significant share of the population, have weak potential for job growth. Climate change is expected to further diminish returns and job creation prospects in these sectors as they are heavily water dependent. According to the 2019 Enterprise Survey,³ 47.4 percent of all private sector firms pointed to instability as the most significant obstacle to their activity and to making investments, versus a regional percentage of 28.7 for the Middle East and North Africa (MENA). The second biggest obstacle is access to finance. On average only 14 percent of Palestinian firms can access finance and have a bank loan/line of credit compared to a regional average of 29.4 percent. The multiple and reinforcing shocks affecting the Palestinian territories during the last few years, including the COVID-19 pandemic, and the increased uncertainty resulting from the escalation in cross-border violence during 2022 and 2023 have further exacerbated the situation.
6. **There is a significant shortage of employment opportunities in the Palestinian territories, affecting particularly youth and women who are attempting to enter the labor market.** As of 2022, about a quarter of the population is unemployed, and the supply of labor exceeds market demand, particularly among youth. Young women (ages 15-24 years) are among the most affected, with 69 percent unemployment, compared to young men at 21 percent (WDI 2021). The situation in Gaza is much worse than in the West Bank, with 45 percent overall unemployment, and 91 percent among young women, reflecting the effects of the near-blockade imposed on the territory since 2007. Moreover, a World Bank report on Job Opportunities for Palestinians⁴ indicated that while Palestinian youth are well-educated, creative, and tech-savvy, the lack of job opportunities is creating frustrations and desperation, with potentially negative consequences.

¹ CEIC data.

² <https://www.state.gov/reports/2022-investment-climate-statements/west-bank-and-gaza/>

³ <https://www.enterprisesurveys.org/content/dam/enterprisesurveys/documents/country-profiles/West-Bank-and-Gaza-2019.pdf>

⁴ <https://documents1.worldbank.org/curated/en/523241562095688030/pdf/West-Bank-and-Gaza-Jobs-in-West-Bank-and-Gaza-Project-Enhancing-Job-Opportunities-for-Palestinians.pdf>



7. **There is also a significant lack of skills needed by the private sector in the Palestinian territories, particularly in digital technologies.** The evidence shows that even where there are available job openings, graduates often lack the skills or practical experience needed by the private sector to effectively compete for and fill the available jobs. Advances in digital technologies, driven in part by recent developments in artificial intelligence (AI), have further accelerated the shift in skills needed by the private sector. As universities remain unable to cater to these demands it has further widened the skills gap between graduates' skills and what technology companies in the Palestinian territories need to be competitive in an increasingly globalized market. To address the mismatch between labor supply and demand, initiatives are needed to create more and better private sector job opportunities while also providing youth with in-demand skills and connecting them to jobs with a particular focus on reducing barriers to female employment. Efforts to this end under the activities focused on Gaza of the predecessor project (Innovative Private Sector Development (IPSD)) have shown very promising results. 73 percent of alumni from training programs completed between 2020 and 2022 reported that they were still employed during the second quarter of 2023 and over half of those are women, which is about three times the labor force participation rate for women in the WB&G. Training alumni also earned an estimated monthly income of approximately US\$ 597, which is almost twice the average wage in Gaza⁵.
8. **Entrepreneurship culture is growing in the WB&G with the startup business ecosystem focused on technology enabled solutions that can help build economic resilience to both geopolitical changes and climate change.** Considering the movement and access issues that obstruct growth in other sectors such as agriculture, early-stage investors tend to focus more on digital entrepreneurs. The entrepreneurship ecosystem i.e., the combination of culture, enabling policies, finance, human capital, product markets, and institutional support of startups businesses, is developing and evolving with more youth choosing entrepreneurship as a career path both as founders and team members⁶. In the Palestinian context, digital and technology-enabled sectors also present a unique opportunity for resilient and climate sensitive growth as they not only are also better able to overcome the restrictions but also have lower climate change impacts and higher resilience to climate effects than many traditional sectors, which can help reinforce the resilience of the Palestinian economy.
9. **The demand for public support to de-risk early-stage financing is increasing, as is the need for efforts to enable regrowth of innovative startups that can integrate into global tech value chains.** The global decline in private venture capital due to interest rate hikes, both directly as well as indirectly through volatility in global financial markets and in particular in startup-focused US banks, set back early-stage funding by over 40 percent year-on-year between Q1 2022 and Q1 2023⁷. Simultaneously, the demands on startups in terms of skills needed to integrate into global value chains is shifting further toward specialized and high value functions related to artificial intelligence. This further emphasizes the need for ecosystem interventions that support both upgrading of human capital to meet these needs while at the same time developing the conditions for entrepreneurs to start and fund tech enabled businesses around these capabilities. In the Palestinian territories, there is a need for stronger engagement at the very early stages of the startup lifecycle, through key ecosystem enablers, to improve sustainability and re-growth in the ecosystem.
10. **With a small domestic market, Palestinian entrepreneurs must overcome a range of obstacles to access international markets and unlock growth.** The domestic Palestinian market is small, fragmented and insulated

⁵ <https://www.pcbs.gov.ps/site/512/default.aspx?lang=en&ItemID=4419>

⁶ Based-on stakeholder consultations

⁷ <https://news.crunchbase.com/venture/global-vc-funding-falls-q1-2023/>



and access to the international market is severely limited by restrictions on movement and access imposed by the Government of Israel. However, while physical restriction is less of an obstacle for technology and digital services businesses as products can be traded electronically, they face a number of challenges to expanding beyond the Palestinian market including underdeveloped networks in regional and international business hubs due to high costs and political obstacles to travel, lack of business development capabilities needed to win complex and high value projects from international clients, weak linkages to accelerators and funds that can catalyze business, the low levels of trust in the quality of Palestinian brands and products, and obstacles to transferring money in and out of WB&G. From Gaza, access to markets is especially poor as the Government of Israel maintains a near-blockade.

11. **Burdensome procedures to start and operate a business impose high compliance costs on Palestinian businesses.** Although the enactment of the Companies Law and its entry into force in April 2022 is a major milestone, implementation of the new legal framework is lagging and requires significant and concerted efforts across government. For the ongoing digitalization of the business registry to succeed, strong coordination between the Ministry of National Economy (MoNE), Ministry of Finance (MoF), Ministry of Telecommunications and Information Technology (MTIT) and other key stakeholder ministries is essential. Palestinian entrepreneurs and businesses face procedural difficulties and costs when it comes to establishing and running their companies. These include unclear and complex regulations, excessive paperwork pending the full digitization of the business registry, lengthy bureaucratic processes to obtain licenses and approvals, and high fees, among other challenges.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

To improve economic opportunities for tech enabled startups and innovative SMEs, and individuals in the digital economy in the West Bank and Gaza'. For the purposes of this project economic opportunities include access to the following resources: (a) early-stage finance, (b) market access activities, (c) mentorship, (d) skills enhancement training, (e) employment matchmaking, and (f) streamlined formal business registration

Key Results

12. The IPSD II project is a follow-on project to the IPSD project, currently under implementation with good results. Building on the results of the IPSD project, the key PDO-level results that will be measured in this project include:
 - (a) **Amount of private capital mobilized by project beneficiaries:** This indicator will be measured under IPSD II as a key PDO level indicator. It will encompass the total private investment mobilized, disaggregated by foreign and local direct investment, as a result of activities under subcomponent 1.2 'developing a dynamic startup financing ecosystem. This indicator is imperative to IPSD II as it will demonstrate the continued engagement of private sector investors in creating economic opportunities for individuals and firms in WB&G through the investment in early-stage ventures.
 - (b) **Number of additional skilled jobs created:** The project is expected to generate job opportunities through GGateway and each of the financing instruments. Results will also be disaggregated in terms of women and youth.⁸ This indicator emphasizes the strong job-creation focus of IPSD II which is

⁸ **Youth** is defined for the purpose of this project as people between the ages of 18 and 29, in alignment with



closely connected with its objective of improving economic opportunities for individuals.

D. Project Description

- 13. **The IPSD II project is a follow-on operation to IPSD that will respond to overwhelming demand generated by the interventions supported under its predecessor and scale up its impact.** It will scale up IPSD’s efforts to create economic opportunities for individuals and firms in the Palestinian territories by investing in the development of the entrepreneurial ecosystem and human capital. Lessons learned and achievements from the IPSD project will be incorporated. Throughout its implementation, IPSD has generated, unprecedented demand by a range of international and regional investors for investment in Palestinian tech-enabled startups. This was achieved through a combination of significant and sustained investment in outreach to international and regional investors, appropriately designed de-risking mechanisms, concerted efforts at improving the investment-readiness of Palestinian startups, and investments to stimulate the supply of well-trained industry-ready IT professionals, particularly in Gaza. To support the sustainability of this development, and with a view to help unlock a potentially game-changing new phase for the Palestinian early- stage ecosystem, the IPSD II project will continue the efforts of IPSD to strengthen market linkages, develop the startup finance ecosystem, and build an impact business and outsourcing hub in West Bank and Gaza to train IT professionals. IPSD II will also continue building on the momentum of business environment reforms created by IPSD to reduce the administrative burden for businesses.
- 14. **IPSD II comprises the same three components as the IPSD project.** IPSD II will finance the scaling up of these components, and their corresponding development impacts, while incorporating lessons learned and market feedback from the implementation of IPSD. IPSD II will also continue to strengthen the institutional capacity of the MoNE to guide policy making for the private sector. Since IPSD was developed under the old Bank safeguards and was already given a waiver when processing additional financing, processing IPSD II as a new operation was concluded to be the only viable option.

Legal Operational Policies

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

Summary of Assessment of Environmental and Social Risks and Impacts

- 15. **IPSD II builds on the IPSD experience, aims to improve economic development and employability, and to utilize tech and tech enabled activities to mitigate and adapt to climate change.** The project will finance activities that haven’t been identified yet and are expected to be implemented in different urban areas within the West Bank and Gaza Strip.

_____ good practice for employment focused programs.



16. **The Project's Environmental and Social (E&S) risk classification at appraisal stage is "moderate".** The key environmental risks under ESS1 include e-waste generation at the end of life, and limited workers' health and safety related to installation and operation of equipment. The social risks are limited in nature and scale and include: social exclusion or inequitable access of comparatively more marginalized categories [e.g. persons with disabilities, women headed households, people in Area C, communities in Access Restricted Areas (ARAs) to project benefits; labor and working conditions; and community health and safety issues due to potential incidents of GBV/SEA/SH and breach of data privacy. The risks of sexual exploitation and abuse and sexual harassment and gender-based violence (SEA/SH/GBV) have been assessed as low.
17. **To manage E&S risks, the PIA will update the IPSD Environmental and Social Management Manual (ESMM) for IPSD II in accordance with ESF requirements.** Labor management and community health and safety measures will also be included in the updated ESMM. The updated ESMM will be consulted on, reviewed and cleared by the Bank and publicly disclosed within one month of the Project Effective Date. The PIA has prepared a Stakeholder Engagement Plan (SEP) and conducted stakeholder consultations in June 2023. The SEP has been reviewed and cleared by the Bank and publicly disclosed by project appraisal.
18. **The PIA has also prepared an Environmental and Social Commitment Plan (ESCP) that will be included in the legal agreement.** The ESCP covers, among other actions, update, and implementation of the ESMM, E&S screening and simplified mitigation measures (as relevant), labor management procedures (included in the IPSD II ESMM), annual post evaluation, SEP and capacity building. The draft negotiation ESCP will also be reviewed and cleared by the Bank and publicly disclosed by the project appraisal date. Finally, a GM for beneficiaries has been established for IPSD at the PIA and is functioning effectively. The GM also includes special features and referral channels for potential gender-based violence/sexual exploitation and abuse/sexual harassment related complaints (GBV/SEA/SH). This GM will also be used for IPSD II. In addition, a project workers' GM is already in place and functioning and will also be used for IPSD II. Information about the GMs is disseminated during stakeholder engagement sessions and is also available on the IPSD website (<https://www.ipspd.ps/>).
19. **Finally, the PIA has extensive experience, and satisfactory E&S performance of implementing projects under the Bank's old safeguards (IPSD and IPSD-AF) and ESF (Techstart and Techstart-AF).** A part-time Environmental and Social Officer (ESO) is in place and is supporting Bank projects extremely well. The ESO will also support IPSD II and, if required, will be provided additional support for E&S management during IPSD II implementation. The ESO has benefitted from various ESF trainings provided by the Bank and will receive further training (as required) during project implementation. Commitments for maintaining E&S capacity at the PIA, and supporting capacity building of the ESO and other relevant project workers will also be included in the ESCP.

E. Implementation

Institutional and Implementation Arrangements

20. **IPSD II implementation arrangements will follow the implementation arrangements of IPSD.** MoNE remains the formal PA Project Counterpart (PC) and continues to provide strategic oversight and engage on key reform agendas, while the overall management of the different project components is the responsibility of DAI—a private



sector firm selected to be the PIA under IPSD. The PIA is responsible for procurement, financial management, safeguards, M&E, annual work planning, progress reporting and oversight of the project. The PIA will also continue to be responsible for the oversight of the financing instruments, in partnership with the MOF and the World Bank, including establishment of eligibility and selection criteria, due diligence of potential grantees, compliance with eligibility and selection criteria, oversight of grant agreements, and disbursement conditions and verification. However, under IPSD II, the capacity of MONE for greater cooperation and partnerships with the private sector will be enhanced and strengthened through targeted capacity building activities.

21. **In support of the overall implementation arrangements, established under IPSD, the new project will retain the advisory and coordination functions in its project’s overall structure.** Members of the Advisory Committee (AC) will include key government representatives from the Ministry of National Economy, Ministry of Finance, Ministry of Entrepreneurship, Ministry of Telecommunications and Information Technology together with representatives from the private sector. The mandate of the SC—also acceptable to the World Bank—will include (i) responsibility for review of IPSD progress, (ii) provision of strategic guidance and recommendations over IPSD implementation, (iii) coordination of relevant Government agencies that need to support implementation of the project, and (iv) facilitation of public-private sector dialogue. Steering Committee will not hold any decision-making authority over the project, including the selection of recipients of the financing made available under the project, however it can advise and provide feedback on the project’s progress. IPSD II will apply the measures that were identified under IPSD to tighten the internal coordination of budget commitments, including enhanced management capacity through trainings, the implementation of appropriate budget controls at the level of project components to ensure activity commitments do not exceed available budget, and the inclusion of budget aspects in the ongoing supervision reporting to the World Bank team.

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THE PALESTINE LIBERATION ORGANIZATION (FOR THE BENEFIT OF THE PALESTINIAN AUTHORITY)

Implementing Agencies



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APPROVAL

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