INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED GRANT

IN THE AMOUNT OF US$15 MILLION

FROM THE TRUST FUND FOR GAZA AND WEST BANK

TO THE

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

FOR THE

TECHNOLOGY FOR YOUTH AND JOBS PROJECT

May 21, 2020

Finance, Competitiveness, and Innovation Global Practice
Education Global Practice
Middle East and North Africa Region
CURRENCY EQUIVALENTS

Exchange Rate Effective April 23, 2020

Currency Unit  =  Israeli New Shekels (ILS)

ILS 1  =  US$0.28
US$1  =  ILS 3.56

FISCAL YEAR

January 1 — December 31

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<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AS</td>
<td>Assistance Strategy</td>
</tr>
<tr>
<td>COVID-19</td>
<td>Coronavirus Disease 2019</td>
</tr>
<tr>
<td>DA</td>
<td>Designated Account</td>
</tr>
<tr>
<td>DFID</td>
<td>UK Department for International Development</td>
</tr>
<tr>
<td>ESMF</td>
<td>Environmental and Social Management Framework</td>
</tr>
<tr>
<td>ESPIP</td>
<td>Electricity Sector Performance Improvement Project</td>
</tr>
<tr>
<td>ESS</td>
<td>Environmental and Social Standard</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>F4J</td>
<td>Finance for Jobs</td>
</tr>
<tr>
<td>FCV</td>
<td>Fragility, Conflict, and Violence</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>FM</td>
<td>Financial Management</td>
</tr>
<tr>
<td>GA</td>
<td>Grant Agreement</td>
</tr>
<tr>
<td>GBV</td>
<td>Gender-Based Violence</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GENIE</td>
<td>Georgia National Innovation Ecosystem</td>
</tr>
<tr>
<td>GHG</td>
<td>Greenhouse Gas</td>
</tr>
<tr>
<td>GIPB</td>
<td>Global Investment Promotion Benchmarking</td>
</tr>
<tr>
<td>GRS</td>
<td>Grievance Redress Service</td>
</tr>
<tr>
<td>GRM</td>
<td>Grievance Redress Mechanism</td>
</tr>
<tr>
<td>HR</td>
<td>Human Resources</td>
</tr>
<tr>
<td>IA</td>
<td>Implementation Agreement</td>
</tr>
<tr>
<td>ICT</td>
<td>Information and Communication Technology</td>
</tr>
<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
</tr>
<tr>
<td>IFR</td>
<td>Interim Financial Report</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>IoT</td>
<td>Internet of Things</td>
</tr>
<tr>
<td>IPF</td>
<td>Investment Project Financing</td>
</tr>
<tr>
<td>IPSD</td>
<td>Innovative Private Sector Development Project</td>
</tr>
<tr>
<td>IT</td>
<td>Information Technology</td>
</tr>
<tr>
<td>KPI</td>
<td>Key Performance Indicator</td>
</tr>
<tr>
<td>MENA</td>
<td>Middle East and North Africa</td>
</tr>
<tr>
<td>M&amp;E</td>
<td>Monitoring and Evaluation</td>
</tr>
<tr>
<td>MNC</td>
<td>Multinational Corporation</td>
</tr>
<tr>
<td>MOF</td>
<td>Ministry of Finance</td>
</tr>
<tr>
<td>MSMEs</td>
<td>Micro, Small, and Medium Enterprises</td>
</tr>
<tr>
<td>MTIT</td>
<td>Ministry of Telecommunication and Information Technology</td>
</tr>
<tr>
<td>MTR</td>
<td>Midterm Review</td>
</tr>
<tr>
<td>NPA</td>
<td>National Policy Agenda</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
</tr>
<tr>
<td>PA</td>
<td>Palestinian Authority</td>
</tr>
<tr>
<td>PDO</td>
<td>Project Development Objective</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Description</td>
</tr>
<tr>
<td>--------------</td>
<td>-------------</td>
</tr>
<tr>
<td>PIA</td>
<td>Project Implementation Agency</td>
</tr>
<tr>
<td>PIPA</td>
<td>Palestinian Investment Promotion Agency</td>
</tr>
<tr>
<td>PITA</td>
<td>Palestinian Information Technology Association of Companies</td>
</tr>
<tr>
<td>POM</td>
<td>Project Operation Manual</td>
</tr>
<tr>
<td>PPSD</td>
<td>Project Procurement Strategy for Development</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>Research and Development</td>
</tr>
<tr>
<td>SEP</td>
<td>Stakeholder Engagement Plan</td>
</tr>
<tr>
<td>SME</td>
<td>Small and Medium Enterprise</td>
</tr>
<tr>
<td>SOE</td>
<td>Statement of Expenditure</td>
</tr>
<tr>
<td>STEP</td>
<td>Systematic Tracking of Exchanges in Procurement</td>
</tr>
<tr>
<td>TechStart</td>
<td>Technology for Youth and Jobs Project</td>
</tr>
<tr>
<td>UNFPA</td>
<td>United Nations Population Fund</td>
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<tr>
<td>USAID</td>
<td>US Agency for International Development</td>
</tr>
<tr>
<td>WA</td>
<td>Withdrawal Application</td>
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## BASIC INFORMATION

<table>
<thead>
<tr>
<th>Country(ies)</th>
<th>Project Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>West Bank and Gaza</td>
<td>Technology for Youth and Jobs</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Project ID</th>
<th>Financing Instrument</th>
<th>Environmental and Social Risk Classification</th>
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</thead>
<tbody>
<tr>
<td>P172571</td>
<td>Investment Project Financing</td>
<td>Moderate</td>
</tr>
</tbody>
</table>

### Financing & Implementation Modalities

- [ ] Multiphase Programmatic Approach (MPA)
- [ ] Series of Projects (SOP)
- [ ] Performance-Based Conditions (PBCs)
- [ ] Financial Intermediaries (FI)
- [ ] Project-Based Guarantee
- [ ] Deferred Drawdown
- [ ] Alternate Procurement Arrangements (APA)
- [ ] Contingent Emergency Response Component (CERC)
- [✓] Fragile State(s)
- [ ] Small State(s)
- [ ] Fragile within a non-fragile Country
- [✓] Conflict
- [ ] Responding to Natural or Man-made Disaster

<table>
<thead>
<tr>
<th>Expected Approval Date</th>
<th>Expected Closing Date</th>
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<tbody>
<tr>
<td>16-Jun-2020</td>
<td>30-Oct-2025</td>
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<table>
<thead>
<tr>
<th>Bank/IFC Collaboration</th>
<th>Joint Level</th>
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<tbody>
<tr>
<td>Yes</td>
<td>Complementary or Interdependent project requiring active coordination</td>
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</table>
Proposed Development Objective(s)

To increase economic opportunities for IT service firms in the West Bank and Gaza

Components

<table>
<thead>
<tr>
<th>Component Name</th>
<th>Cost (US$, millions)</th>
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<tbody>
<tr>
<td>Improving IT service capabilities</td>
<td>6.50</td>
</tr>
<tr>
<td>Improving the IT services ecosystem</td>
<td>4.75</td>
</tr>
<tr>
<td>Improving market access, and increasing demand and investments</td>
<td>1.50</td>
</tr>
<tr>
<td>Project management and Implementation Support</td>
<td>2.25</td>
</tr>
</tbody>
</table>

Organizations

Borrower: The Palestine Liberation Organization (for the benefit of the Palestinian Authority)

Implementing Agency: Ministry of Telecommunications and Information Technology via a private sector implementing agency

PROJECT FINANCING DATA (US$, Millions)

<table>
<thead>
<tr>
<th>SUMMARY</th>
</tr>
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<tbody>
<tr>
<td>Total Project Cost</td>
</tr>
<tr>
<td><strong>Total Financing</strong></td>
</tr>
<tr>
<td>---------------------</td>
</tr>
<tr>
<td>of which IBRD/IDA</td>
</tr>
<tr>
<td><strong>Financing Gap</strong></td>
</tr>
</tbody>
</table>

**DETAILS**

**Non-World Bank Group Financing**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
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<tbody>
<tr>
<td>Trust Funds</td>
<td>15.00</td>
</tr>
<tr>
<td>Special Financing</td>
<td>15.00</td>
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**Expected Disbursements (in USS, Millions)**

<table>
<thead>
<tr>
<th>WB Fiscal Year</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
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<tbody>
<tr>
<td>Annual</td>
<td>0.80</td>
<td>2.00</td>
<td>4.00</td>
<td>4.00</td>
<td>3.50</td>
<td>0.70</td>
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<tr>
<td>Cumulative</td>
<td>0.80</td>
<td>2.80</td>
<td>6.80</td>
<td>10.80</td>
<td>14.30</td>
<td>15.00</td>
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**INSTITUTIONAL DATA**

<table>
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<tr>
<th>Practice Area (Lead)</th>
<th>Contributing Practice Areas</th>
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<tbody>
<tr>
<td>Finance, Competitiveness and Innovation</td>
<td>Education</td>
</tr>
</tbody>
</table>
**Climate Change and Disaster Screening**

This operation has been screened for short and long-term climate change and disaster risks

**SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)**

<table>
<thead>
<tr>
<th>Risk Category</th>
<th>Rating</th>
</tr>
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<tbody>
<tr>
<td>1. Political and Governance</td>
<td>High</td>
</tr>
<tr>
<td>2. Macroeconomic</td>
<td>High</td>
</tr>
<tr>
<td>3. Sector Strategies and Policies</td>
<td>Substantial</td>
</tr>
<tr>
<td>4. Technical Design of Project or Program</td>
<td>Substantial</td>
</tr>
<tr>
<td>5. Institutional Capacity for Implementation and Sustainability</td>
<td>High</td>
</tr>
<tr>
<td>6. Fiduciary</td>
<td>Substantial</td>
</tr>
<tr>
<td>7. Environment and Social</td>
<td>Moderate</td>
</tr>
<tr>
<td>8. Stakeholders</td>
<td>High</td>
</tr>
<tr>
<td>9. Other</td>
<td></td>
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</tbody>
</table>
10. Overall

<table>
<thead>
<tr>
<th>Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does the project depart from the CPF in content or in other significant respects?</td>
</tr>
<tr>
<td>[ ] Yes  [✓] No</td>
</tr>
</tbody>
</table>

| Does the project require any waivers of Bank policies? |
| [ ] Yes  [✓] No |
### Environmental and Social Standards Relevance Given its Context at the Time of Appraisal

<table>
<thead>
<tr>
<th>E &amp; S Standards</th>
<th>Relevance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assessment and Management of Environmental and Social Risks and Impacts</td>
<td>Relevant</td>
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<tr>
<td>Stakeholder Engagement and Information Disclosure</td>
<td>Relevant</td>
</tr>
<tr>
<td>Labor and Working Conditions</td>
<td>Relevant</td>
</tr>
<tr>
<td>Resource Efficiency and Pollution Prevention and Management</td>
<td>Relevant</td>
</tr>
<tr>
<td>Community Health and Safety</td>
<td>Relevant</td>
</tr>
<tr>
<td>Land Acquisition, Restrictions on Land Use and Involuntary Resettlement</td>
<td>Not Currently Relevant</td>
</tr>
<tr>
<td>Biodiversity Conservation and Sustainable Management of Living Natural Resources</td>
<td>Not Currently Relevant</td>
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<tr>
<td>Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities</td>
<td>Not Currently Relevant</td>
</tr>
<tr>
<td>Cultural Heritage</td>
<td>Not Currently Relevant</td>
</tr>
<tr>
<td>Financial Intermediaries</td>
<td>Not Currently Relevant</td>
</tr>
</tbody>
</table>

**NOTE:** For further information regarding the World Bank’s due diligence assessment of the Project’s potential environmental and social risks and impacts, please refer to the Project’s Appraisal Environmental and Social Review Summary (ESRS).

### Legal Covenants

#### Sections and Description

Schedule 2, Section I. D.1 of the Grant Agreement: No later than 120 days after the Effective Date, the Recipient shall, through the Palestinian Authority, cause MTIT to (a) adopt the project operations manual (“Project Operational Manual” or “POM”); and (b) ensure that PIA carries out the Project in accordance with the POM, satisfactory to the Bank, which shall include the rules, methods, guidelines, standard documents and procedures...
for the carrying out of the Project.

### Conditions

<table>
<thead>
<tr>
<th>Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effectiveness</td>
<td>Article IV, 4.01 (1) of the Grant Agreement: The execution and delivery of this Agreement on behalf of the Recipient has been duly authorized or ratified by all necessary governmental and corporate action.</td>
</tr>
<tr>
<td>Effectiveness</td>
<td>Article IV, 4.01 (2) of the Grant Agreement: The Subsidiary Agreement referred to in Section I.B of Schedule 2 to this Agreement has been executed on behalf of the Recipient and the PA.</td>
</tr>
<tr>
<td>Effectiveness</td>
<td>Article IV, 4.01 (3) of the Grant Agreement: The Implementation Agreement, acceptable to the World Bank, has been executed on behalf of the Palestinian Authority and the PIA.</td>
</tr>
<tr>
<td>Disbursement</td>
<td>Schedule 2, Section B.1 (b) of the Grant Agreement: under Category 2 until the Recipient, through the Palestinian Authority, has caused MTIT to adopt a manual for implementation of the Stipends, Employment Subsidies, and Matching Grants and incorporated said manual as part of the Project Operations Manual.</td>
</tr>
</tbody>
</table>
I. STRATEGIC CONTEXT

A. Country Context

1. **Economic momentum faltered in 2019 and the coronavirus disease 2019 (COVID-19) outbreak is expected to further exacerbate the situation in 2020.** Growth of real gross domestic product (GDP) in the West Bank and Gaza was 0.9 percent in 2019. Notably, the slowdown was driven by a decline in private and public consumption and in investment mostly due to the fiscal crises that the West Bank and Gaza experienced during the majority of 2019. Even though official data is not out yet, anecdotal evidence shows that the situation has worsened in 2020 as the COVID-19 outbreak is causing disruptions to economic activity and everyday lives, which is expected to weigh heavily on GDP growth.

2. **Job creation has been sluggish, not keeping up with new labor market entrants and leaving unemployment high.** Since the mid-1990s, the labor force has increased by nearly a million Palestinians; over the same period, the public and private sectors have only created half a million additional jobs.¹ This has resulted in stubbornly high unemployment, which as of the fourth quarter of 2019 was 24 percent across the West Bank and Gaza—similar to the unemployment level in 2018. At the same time, in the West Bank, unemployment was 14 percent. Labor market indicators clearly showcase the growing divergence between the West Bank and Gaza economies as unemployment in Gaza was about three times higher—compared to the West Bank—at 43 percent (one of highest rates globally). As an average of 120,000 youth (ages 15–29) have been entering the Gazan market each year, unemployment among Gaza’s youth was at 61 percent in the fourth quarter of 2019.²

3. **Economic participation of women is deeply constrained—both in overall participation in the labor force and in access to leadership roles.** While male labor force participation in the West Bank and Gaza was 76 percent in 2019, female participation was 19.5 percent—lowest in the Middle East and North Africa (MENA) region—while a basket of comparable countries³ have a much higher average female labor force participation rate of 39 percent.⁴ Economic constraints on women in the Palestinian territories are thought to be the result of mobility restrictions that have an outsized impact on females. Navigating checkpoints is perceived as unsafe for Palestinian women—so they search locally for jobs, greatly limiting their employment opportunities. Accessing higher education does not improve employment outcomes for Palestinian women—while the opposite is true for men. Strikingly, 50 percent of women with degrees (bachelor or higher) are unemployed, while less than 10 percent of women with lower levels of educational attainment are unemployed.⁵ Constraints on female employment also extend to accessing

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² Unless otherwise noted, figures are coming from Palestinian Central Bureau of Statistics.
³ Jordan, Bosnia and Herzegovina, and Moldova.
leadership roles, in part due to negative perceptions of women’s ability to be leaders. According to the World Bank’s Enterprise Survey data, only 6 percent of Palestinian firms have female participation in ownership—compared to 25 percent of firms in the MENA region. Regarding women in top management, only 1 percent of Palestinian firms have a female top manager—compared to 6 percent of firms in the region.  

4. **The Palestinian economy suffers from a lack of diversification.** Resource and import/export constraints are leading to a continuing decline in the productive base of the economy. Over the last 25 years, the share of manufacturing and agriculture in the economy has halved. The economy has been driven by large inflows of transfers as other sources of growth have been long hindered by the restrictions on movement and access. Inflows of transfers have significantly dropped in recent years, making it more pressing to unlock growth constrained by a difficult business environment. The trade and movement restrictions have created a high risk of disruption in projects or trade and have kept investment levels low, resulting in a bias toward non-traded services which have less potential for productivity growth.

5. **Regarding the business climate, Palestinian firms face constraints to investment and job creation, although there has been some progress in this area.** According to World Bank analysis, productive investments are inhibited by a patchwork regulatory framework of climate interventions which has been vulnerable to capture by vested interests. Furthermore, the current regulatory framework is particularly restrictive for foreign investors which based on outdated laws cap foreign ownership at 49 percent and thus mandate a local majority business partner. Although exceptions are granted, this deters foreign investors and substantially increases their risk assessment of an already risky environment. While it is not seen as an impediment for large firms, access to finance continues to be a challenge for small and medium enterprises (SMEs) and informal firms. About 17.7 percent of small and 19.5 percent of medium firms rank access to finance as the biggest obstacle for doing business, according to the World Bank’s Enterprise Survey. SMEs also suffer from power cuts and costly backup arrangements to secure critical basic services, particularly in Gaza. The West Bank and Gaza ranked at a low 117th out of 190 economies in the 2020 Doing Business report. The Palestinian Authority (PA) has initiated further steps to improve the business climate, but these have yet to be fully implemented. The Ministry of National Economy is consulting with the public on the revised draft of the Companies Law and is aiming to have the new law in place in 2020. Since the Parliament was dissolved in 2006, the law-making process has become inherently difficult and unpredictable.

6. **The COVID-19 outbreak is expected to inflict significant damage on the Palestinian economy.** The outbreak is expected to tip the global economy into a contraction of three percent in 2020, according

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6 According to United Nations Women-Promundo’s 2017 Results from International Men and Gender Equality Survey (IMAGES) for Egypt, Lebanon, Morocco, and Palestine report, 67 percent of men and 52 percent of women in West Bank and Gaza believe women are too emotional to be leaders.


to the International Monetary Fund (IMF). Decisive action by the PA to contain the pandemic will constrain labor supply, the movement of people and goods, and consumption, therefore having a negative impact on the Palestinian economy. Foreign demands for Palestinian exports will most likely decrease. A sharp decrease in household income, from higher unemployment and restrictions on the movement of Palestinian workers will reduce spending, putting pressure on firms. Business insolvency due to a decrease in demand would also inflict economic damage. Reduced international support due to the domestic priorities of donors and a halt in tourism will also affect the economy. According to World Bank estimates, if the lockdown continues for a period of four months, the Palestinian economy is expected to contract by 7.6 percent in 2020. A large share of the population was already vulnerable even before the current outbreak with around 24 percent of Palestinians living below the US$5.5 a day poverty line. The expected shrinking of GDP per capita, the spread of the coronavirus, and a potential reduction in donor funding are expected to have a further negative impact on people’s well-being and incomes.

7. **The PA has taken measures to support the private sector during the COVID-19 outbreak.** An early decision by the Palestine Monetary Authority to provide between four and six months of forbearance on payments to banks has provided some relief, but with only 14 percent of firms with a loan to the banking sector, the scope of this support is limited. The Ministry of Finance (MOF) took several measures to support the private sector including: (a) postponing the payment of income tax advances until the state of emergency ends, (b) postponing filing requirements and cancelling penalties, and (c) facilitating some remote services delivery. These measures are welcome, but unlikely to be sufficient to support the formal private sector through the crisis.

B. Sectoral and Institutional Context

8. **Information technology (IT) services** have provided an avenue for export growth. Trade restrictions on the economy come in the form of trade procedures that lead to high transaction costs and of physical impediments to the movement of people and goods. A World Bank gravity model found that under normal and ideal circumstances, the estimated merchandise exports could be as high as US$2.8 billion compared to about US$130 million in actual exports in 2015. However, some types of services exports may be less sensitive to trade and movement restrictions than exports of goods. Service exports have been on the rise in the past two decades in the West Bank and Gaza, at US$612 million in 2018 up from US$460 million in 2000, a disproportionate share of this growth—28 percent—has been powered by

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11 IT services sector: a subset of the ICT sector, includes wholesale of information and communication equipment; software publishing; computer programming, consultancy, and related activities; data processing, hosting, and related activities; and web portals. Source: Refer to European Classification of Economic Activities (NACE) Revision 2 sectors of economic activity within the ICT sector definition. [https://ec.europa.eu/eurostat/cache/metadata/en/isoc_se_esms.htm](https://ec.europa.eu/eurostat/cache/metadata/en/isoc_se_esms.htm).

information and communication technology (ICT) service exports.\textsuperscript{13} ICT service exports accounted for 15 percent of service exports in 2017, up from 0.6 percent in 2000, and stood at US$86 million in 2017.\textsuperscript{14} The Palestinian IT sector,\textsuperscript{15} a subset of the ICT sector, has benefited from this growth in exports.

9. Some of this growth has been fueled by demand from multinational corporations (MNCs) with a growing footprint in the region but facing a shortage of engineers and computer scientists, coupled with a growing and untapped labor pool in the West Bank and Gaza’s IT sector. Throughout the region, countries have been adopting policies aimed at building innovation-driven economies. Gulf Cooperation Council countries, with economies traditionally based on petrochemicals, are seeking to create diversified and sustainable economies through research and development (R&D), technology, and innovation. However, MNC operations are facing new challenges in the region due to labor shortages. To cope with the shortage of talent and reduce costs, MNCs resort to outsourcing\textsuperscript{16} and offshoring solutions. This is part of a growing trend of global spending on IT outsourcing and a growing share of IT budgets being spent on outsourcing.\textsuperscript{17} At the same time, there is an abundant labor market for engineering and computer science in the West Bank and Gaza, with unemployment rates in those two professions being high. Moreover, although still underrepresented compared to men, women account for a relatively larger share of students enrolled in science, technology, engineering, and mathematics fields in the West Bank and Gaza than in the Organization for Economic Co-operation and Development (OECD) or neighboring countries. In 2018, women accounted for 42 percent of higher education students enrolled in ICT fields programs compared to a figure of 19 percent in the United States and 27 percent in Egypt.\textsuperscript{18} With more than 3,000 engineering and computer science graduates each year, in 2018, the percentage of unemployment\textsuperscript{19} among computer sciences graduates has been 43 percent among males and 75 percent among females and for engineering graduates was 39 percent among males and 69 percent among females.

\textsuperscript{13} Note that trade data is available for ICT service exports, but not for IT service exports, a subset of ICT service exports. ICT service exports include exports of computer and communications services (telecommunications and postal and courier services) and information services (computer data and news-related service transactions). Source: IMF, Balance of Payments Statistics Yearbook and data files.

\textsuperscript{14} World Bank, World Development Indicators.

\textsuperscript{15} The production (goods and services) of an ICT industry must primarily be intended to fulfill or enable the function of information processing and communication by electronic means, including transmission and display. Source: OECD. 2011. OECD Guide to Measuring the Information Society 2011. Paris: OECD Publishing.

\textsuperscript{16} IT Outsourcing Statistics 2019/2020 (https://www.computereconomics.com/page.cfm?name=Outsourcing) defines 11 functions that are frequently outsourced: (a) application development outsourcing, (b) application management, (c) data center operations outsourcing, (d) database administration outsourcing, (e) desktop support outsourcing, (f) disaster recovery outsourcing, (g) help desk outsourcing, (h) IT security outsourcing, (i) network operations outsourcing, (j) system implementation/integration outsourcing, and (k) web operations outsourcing.

\textsuperscript{17} https://www.computereconomics.com/article.cfm?id=2422.

\textsuperscript{18} http://data.uis.unesco.org/. Data for the United States and Egypt is for 2017.

10. **Firms in the West Bank and Gaza offer a comparative advantage in nearshore and team extension models for outsourcing (see box 1).** The costs of Palestinian IT service labor are 20 percent to 30 percent that of economies with developed IT services sectors, but in some cases higher than in other low-cost outsourcing countries such as India. The West Bank and Gaza also offers MNCs with existing regional R&D activities, a strong geographic proximity advantage. The imminent risk of losing their business due to unavailable talent and increasing costs is pushing MNCs with a regional presence to consider nearshore and onshore outsourcing, by outsourcing work to Palestinian companies. MNCs facing local labor shortage place a premium on nearshoring rather than offshoring some of their R&D activities to enable close collaboration with contractors working in the same time zone. Nearshoring is particularly in demand for MNCs requiring team extension models (see box 1). To MNC subsidiaries in neighboring economies, the West Bank and Gaza’s location presents benefits for conducting trainings and meetings and managing teams and training. Cultural and language similarities also create regional incentives for nearshoring, rather than offshoring to more distant geographies. Besides its immediate neighborhood, the West Bank and Gaza could also benefit from raising its profile compared to the European market. The European Commission reports that 40 percent of companies have difficulties finding ICT specialists and predicts that by end-2020 there will be 500,000 unfilled vacancies for ICT professionals. European medium-size companies in particular, outsource IT jobs to respond to talent shortage, high development costs, and the intense competition in the labor market.

11. **The IT services sector represents an opportunity for the West Bank and Gaza during the COVID-19 outbreak and recovery phases:**

- The sector can play a key role in strengthening the West Bank and Gaza’s economic resilience because businesses in the sector are better positioned than businesses in other sectors to adapt to outbreak phases and maintain employment—given adequate public support. The sector is less vulnerable to the PA’s measures to contain the pandemic than other sectors that rely on in-person or consumer-facing services. It can also accommodate remote work more easily than many sectors. Moreover, the market for technology development outsourcing with global technology-intensive companies is expected to be relatively resilient to outbreak phases due to the longer-term cycle of the more advanced R&D typically associated with these companies and the large cash reserves held by some of these global companies.

- The sector can also play a role in accelerating the recovery of the Palestinian economy if it focuses on mid- and advanced-level skills, which are expected to be more resilient and sustainable due to sustained global demand.

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Box 1: Outsourcing of IT Services

IT outsourcing is the practice of hiring an external company to perform certain tasks. IT outsourcing is widespread in IT services and is present at every phase of the product or service supply chain and in every sector. Offshoring is when a company moves activities to a lower-cost location, closer to the place of consumption or closer to available talent. Nearshoring is the practice of transferring a business operation to a nearby country.

Most MNCs are engaged in offshore outsourcing, when they outsource activities to other companies in other locations. The most well-known offshore outsourcing locations in the industry are China, Malaysia, or Vietnam for IT equipment manufacturing, India and Eastern Europe for software and high-level business process outsourcing, and the Philippines for low-level business process outsourcing. Offshore outsourcing usually brings additional benefits beyond the cost savings, such as higher economy of scales (outsourcing companies typically serve multiple MNC clients from one location), increased flexibility, access to new markets, tax benefits, and capital expenditure savings. Offshore outsourcing also has disadvantages for MNCs, including time zone differences, the lost direct access to resources, limited transparency on assets and costs, and the slow communication feedback loop between the head office and outsourcing locations.

Some of these disadvantages are not encountered in the nearshoring model. When choosing nearshore outsourcing, businesses move operations or functions to a close but more cost-effective location, with small time zone differences and fewer cultural discrepancies. Proximity allows for less expensive travel, a greater degree of control, and timely decision-making in critical situations. IT companies, that focus on highly qualified employees and high-tech knowledge transfer for R&D services, usually choose nearshoring.

Team extension outsourcing models favor nearshoring over offshoring. In team extension outsourcing, contract fees are not made on the basis of a single project deliverable but on the basis of integrating the outsourcing firm’s team with the MNC’s team and covering staff time and other operational resources.

12. In spite of the recent rise of IT service exports21 in the West Bank and Gaza, their scaling and technology upgrading remain stunted by a set of factors in the IT innovation ecosystem (henceforth ‘ecosystem’).22 Palestinian IT and business process services industry output stood at US$126 million in 2017,23 growing at 6 percent annually since 2010. However, this growth remains well below the West Bank and Gaza’s potential. In spite of its more than 3,000 engineering and computer science graduates per year (equivalent to 8.2 percent of the net labor force increase each year), only roughly 3,700 people are employed in the IT services sector (0.4 percent of employed labor force), of which more than 2,679 people are employed in outsourcing (0.3 percent of employed labor force), out of an employed labor force of approximately 923,00024 in the West Bank and Gaza. The Palestinian IT export sector remains ‘stuck’ in a low equilibrium of competing on price and geographic location, whereas broader technological capabilities, better brand and trust, and more in-house talent would allow it to compete on a broader range of services with more international buyers. Because the factors influencing this equilibrium are interrelated and self-reinforcing it is unlikely that addressing any one of these in isolation will contribute

21 IT service exports are a subset of ICT service exports which include computer services consisting of hardware- and software-related services and data processing services. Source: WTO Statistical data sets – Metadata (http://stat.wto.org/StatisticalProgram/WSDBStatProgramTechNotes.aspx?Language=E&Def_Meth_Services_BPM6).
22 IT innovation ecosystem (or ‘ecosystem’): a geographical area where value is co-created through a collection of actors, assets, and interactions and which includes IT firms, investors, suppliers, buyers, government, universities, other institutions, rules, and norms.
23 GBP 102 million.
to changing the dynamics of the ecosystem. These factors are resilient, influenced by a mix of market failures, system failures, and PA inefficiencies. Figure 1 depicts the causality between outcomes affecting firm upgrading along with the factors (for example, market failures, system failures, and PA inefficiencies) that have negative effects on those outcomes. Each factor is described in more detail in the following paragraphs. These systemic factors, which were present before the COVID-19 crisis, will be exacerbated by additional pressure on businesses inflicted by the crisis, which threatens to downsize the sector, erasing many of the gains made in terms of firm capabilities and market networks, and hampers its ability to respond to global demand and create jobs in the long run.
Figure 1: Simplified Interaction between Outcomes Affecting Firm Upgrading in the Palestinian IT Services Sector
Factor 1: Technical skill gaps due to policy failures in research and education

13. There is a high unemployment rate among IT graduates due to skills gaps arising from limited links between universities and industry and lack of research labs and equipment. Moreover, there are significant gender-based differences in labor market outcomes. Eleven universities provide the Palestinian market with approximately 3,000 engineering and IT graduates per year, but recent graduates, especially women, suffer from high unemployment due to skill gaps that make access to the job market difficult. In 2018, the percentage of unemployment among computer sciences graduates was 43 percent among males and 75 percent among females, and for engineering graduates was 39 percent among males and 69 percent among females. Skills gaps include specialized technical skills, practical training, soft skills, and creative thinking. This is in turn a result of several factors including: (a) limited links between universities and industry, which can help universities to keep up with technological trends and adjust their curriculum and (b) lack of access to research labs and equipment, either internal to the firm or as part of a university, that enable graduates to acquire the skills that are required for international client work.

Factor 2: Gender gaps due to structural barriers and norms

14. The limited role of women in the IT services sector, including in leadership positions, prevents the West Bank and Gaza from realizing its full potential. A higher unemployment rate among women computer science graduates is in part reflective of the West Bank and Gaza’s broader labor market where unemployment rates are significantly higher among skilled women (47 percent) relative to skilled men (18 percent), which stands in sharp contrast to the near education parity at the postsecondary level by gender. Skilled female unemployment is especially high in Gaza, at 61 percent versus 38 percent in the West Bank.

15. Faced with additional mobility constraints, women are often unable to develop those skills due to challenges with access to opportunities and/or knowledge that such opportunities exist. Furthermore, social factors constrain job options of skilled women relative to men. Some laws limit the autonomy and movement of women and make it more difficult for them to join the workforce. The absence of other regulations, such as for access to childcare, leads many skilled women to stay at home rather than compete in the job market. Moreover, the absence of workforce protection provisions that safeguard against discrimination in the workplace can hamper chances of promotion. Social issues such as safety in commuting to work and social norms on appropriate positions for women also limit their ability to work in certain positions with schedules that require long working hours.

25 See factors in Figures 1 and 2.
Factor 3: Practical skill gaps due to coordination failures

16. The absence of scale economies in skills development in the IT sector also creates inefficiencies and places Palestinian IT service firms at a comparative disadvantage. Many specialized skills related to the unique technology platforms developed by international buyers require economies of learning through on-the-job-training. Yet, firms tend to underinvest in training staff because human capital mobility limits the private returns of their investments, and the West Bank and Gaza is missing structured and organized training centers, bootcamps, or similar opportunities to facilitate market integration of fresh graduates, or re-skilling of unemployed youth. Moreover, international experience shows that employees in smaller firms, such as those in the West Bank and Gaza’s IT services sector, tend to have less access to on-the-job training than larger firms.

17. Palestinian firms’ inability to staff their teams with experienced team leaders is another key bottleneck to scaling contracts with international buyers. Interviews with local outsourcing companies and international buyers consistently reveal the lack of experienced local team leaders, with three to five years of experience on an international buyer’s technology platform, as a binding constraint to scaling their contracts with Palestinian firms. A team leader is required for each additional 5 to 10 less experienced team members working on a project. Palestinian firms are not able to identify team leaders with the required experience in the labor market.

Factor 4: Human resource gaps due to search costs for new hires

18. Interviews with international buyers suggest that Palestinian firms face challenges in recruiting and finding new employees with the skills that meet the needs of new client projects. This can lead to long delays in recruiting staff or mismatches between the staff being recruited and the requirements of a client project. One factor that was frequently cited was that admission to a Palestinian university and final grades did not act as a sufficient screening signal for employers seeking top talent. As a result, international buyers outsourcing demand remains unfulfilled and takes place at a lower scale, with delays and transaction costs on the international buyer due to additional lengthy screening of talent proposed for a project.

Factor 5: Managerial gaps due to capability failures

19. Managerial skills in IT businesses pose an obstacle throughout the entire service value chain, including identifying new markets and securing and delivering contracts. A survey of Palestinian technology firms found that they all rated their proficiency levels of core business skills at much below the ‘mastery’ level. Marketing skills and access to market information are self-reported as particularly absent among local companies, hindering their ability to develop market trends, identify trading partners,

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develop services for prospects, and deliver services that meet their standards.\textsuperscript{31} One factor behind limited managerial capabilities of Palestinian IT service firms is that these firms tend to be much smaller than their international competitors. For example, IT services and business process services firms in the West Bank and Gaza have on average 37 full-time employees versus 400 in Romania and Morocco and 2,500 in India.\textsuperscript{32} Management (and technological) knowledge is also limited by the absence of knowledge spillovers from MNCs subsidiaries who have served as catalysts for the homegrown industries for all of the world’s more recent IT hubs (for example, India). Foreign direct investment (FDI) remains limited in the West Bank and Gaza overall and awareness of the IT service potential in the West Bank and Gaza abroad is weak. As a result, local IT service firms have limited exposure to global best practices and standards. Despite constraints in the investment climate and meager investment promotion, examples such as the office opened in Ramallah by Axsos AG—a German IT service provider —indicate that untapped business opportunities exist.

\textit{Factor 6: Infrastructure gaps due to policy failures and coordination failures}

20. \textbf{The ecosystem does not support IT service firms with the infrastructure and services that they require to complement their internal capabilities.} The West Bank and Gaza’s IT service firms are mostly SMEs and do not have the economies of scale to create specialized infrastructure that could help them to be more productive and grow. These functions are not available in the local market either. As a result, local firms face barriers in accessing information on markets and in technology, standards, recruiting services, training services, and management and leadership support. In many countries, consultants, universities, government agencies, peer firms, suppliers, and customers all play roles in spreading best practices and providing complementary infrastructure to firms. In the West Bank and Gaza there are very few business service providers,\textsuperscript{33} and because the market of IT services is thin, with limited FDI, spillovers remain limited too.

21. A core challenge hampering the development of IT services in Gaza is firms’ access to basic infrastructure and equipment, namely electricity, the internet, and computer equipment. The unpredictability of energy cuts has a negative effect on cost competitiveness and client deadlines of local IT firms, while also limiting air conditioning to improve productivity in the summer. While the internet is available, businesses report that they rely on 30 Mbps connections, which is on the low end of the spectrum for an IT business and would prevent heavy data upload and downloads on a continuous basis. This makes the use of recent technologies such as internet of things (IoT) or cloud computing very difficult in Gaza. Mobile 3G internet is still not available in Gaza.


\textsuperscript{32} Everest Group. 2018. \textit{Determining the Value Proposition of Palestinian IT/BPS Industry for the UK Market}.

\textsuperscript{33} Palestinian Market Development Program. 2014. \textit{MNEs Outsourcing to Palestine, Market System Analysis}. 

Factor 7: Market access gaps due to search costs, transaction costs, and information asymmetries

22. **High search costs and transaction costs in identifying business partners and understanding the business environment provide disincentives for international buyers and investors to seek business opportunities in the West Bank and Gaza.** International buyers are relatively unaware of opportunities in the West Bank and Gaza’s IT service exports and are likely to be dissuaded to explore opportunities due to their perceptions of risks in the West Bank and Gaza. A survey of 300 international buyers found that 55 percent were ‘completely unaware’ of IT outsourcing capabilities in the West Bank and Gaza. Even for those who were aware, the survey found that only 30 percent of those who had not done businesses in the West Bank and Gaza were open to considering it for their future needs, while 70 percent of those who had outsourced to the West Bank and Gaza were open to subsequent contracts. Moreover, to make matters worse, few Palestinian IT companies have commercial presence abroad and this provides limited visibility to the sector. The difficulty of movement in and out of the West Bank and Gaza diminishes the international exposure of the IT sector. Movement for locals and foreigners, into and out of Gaza, generally requires special permits that are onerous, and often not feasible, to obtain. Difficulty in movement is a significant constraint on Palestinian market access in the sector, as international buyers involved in outsourcing, and particularly those working with nearshoring and team extension arrangements, expect frequent face-to-face meetings and periodic colocation of team members to ensure knowledge transfer and skills upgrade. Finally, international buyers who could be a source of service exports are unclear on how to establish subsidiaries in the West Bank and Gaza. In fact, there has not been a greenfield investment in the West Bank and Gaza since 2013.

23. **Information asymmetries between international buyers and local businesses reduce incentives for outsourcing.** Few managers of Palestinian IT service firms have experience working in international firms or in their value chains abroad. This together with the fact that few IT service firms have a commercial presence abroad results in a limited understanding of their potential markets and of high-tech business culture and limited ways to develop relationships of trust with new players. Interviews with international buyers reveal that they also have a poor understanding of Palestinian firms’ capabilities and that their Palestinian firms often have poor understanding of their client’s needs. Some international buyers who are active in the West Bank and Gaza are also reluctant to switch to unfamiliar players in the West Bank and Gaza due to risk and learning curve issues, thus limiting competition in the market.

24. **In addition to existing systemic factors, the COVID-19 crisis threatens to eliminate many of the IT service sector’s gains from the past two decades.** During the COVID-19 outbreak phase, movement restrictions and mandatory lockdowns are expected to lead to liquidity challenges, layoffs, firm closures, and bankruptcies. Local IT service firms with clients in the hospitality, travel, and tourism sectors and in certain retail sectors will be particularly affected. The local IT services sector is expected to be particularly vulnerable due to the small size of its firms. Smaller firms will be affected more severely than larger firms.

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by COVID-19 due to their lack of resources to weather the liquidity crunch, reposition their companies, and cushion the decline in demand.

25. During the recovery phase, mobility restrictions and mandatory lockdowns will be removed, allowing businesses to reopen. Still, many firms, including both larger corporates and micro, small, and medium enterprises (MSMEs), will not have escaped the previous phase unscathed and may be facing the risk of insolvency. Moreover, the negative effects on credit markets and worker productivity will only dissipate gradually. Layoffs, firm closures, and bankruptcies during an outbreak phase would leave the Palestinian IT sector at a competitive disadvantage globally for IT services contracts during a recovery phase and would affect employment growth in the sector in the long run because successful firms take years to build.

26. In terms of initiatives to support the IT sector, the Ministry of Telecommunication and Information Technology (MTIT) and three local organizations, the Palestinian Information Technology Association of Companies (PITA), the Palestinian Investment Promotion Agency (PIPA), and PalTrade, run initiatives to support trade and investment in the IT sector. PITA represents more than 150 Palestinian ICT companies. PITA’s establishment and its recent growth in membership demonstrate the willingness of Palestinian firms to contribute to the growth of the sector. PITA organizes an annual ICT conference (Expotech), represents local companies in international events, and receives foreign delegations. It also produces media to promote the sector. PIPA disseminates information on investments in the ICT sector, including on tax incentives. PalTrade hosts a national prize for the best ICT exporter, provides support to local companies attending conferences abroad, and conducts research on trade issues.

C. Relevance to Higher Level Objectives

27. The Technology for Youth and Jobs Project (short name TechStart) is aligned with the World Bank Group’s FY18–21 Assistance Strategy (AS) for the West Bank and Gaza (Report No. 115201-GZ) discussed by the Board of Executive Directors on December 5, 2017—and is aligned with the PA’s 2017–2022 National Policy Agenda (NPA). TechStart extensively supports the NPA priority of economic independence, as the project will help to build the future economy, create jobs, improve the business environment, and promote industry. This project is particularly aligned with two pillars of the AS: Pillar 1 ‘Setting conditions for increased private sector investment and job creation’ and Pillar 2 ‘Private sector enhancement to realize private sector investments.’ On private sector-driven development and job creation, TechStart targets two engagement areas of Pillar 1—(a) building skills for the private sector’s labor needs and (b) increasing ties to regional markets—both areas that could help to spur growth and improve employment outcomes for youth. By exposing young Palestinian engineers to the advanced R&D work of internationally competitive companies, industry-driven skills will be nurtured and sharpened through support of the project. At the same time, the project focuses on mobilizing investments through deepening linkages and business opportunities for the Palestinian ecosystem with the R&D divisions of international companies as well as with business training and service providers.

39 Note that while this project is concerned with the IT sector, PITA represents the broader ICT sector.
40 http://home.pita.ps/wp.
41 ICT is broader than IT.
28. **TechStart** is being designed to contribute to the implementation of the World Bank Group’s enlarged MENA strategy (March 2019), especially human capital development, employability, and digital transformation. By helping young Palestinian engineers and IT graduates gain access to on-the-job learning opportunities in highly advanced companies, human capital development for Palestinians in the IT services sector would accelerate. Knowledge transfer would contribute to building the capacities and skills of Palestinian graduates, especially engineers working in Palestinian outsourcing companies. By helping reduce barriers between the Palestinian IT services industry and advanced international buyers, the technical capacity of these Palestinian companies could make notable advances in developing a digital ecosystem. This would contribute to improving contestability in markets through disruptive technologies and therefore sustainable economic opportunities for the youth and women in the West Bank and Gaza.

29. **This project will help realize the World Bank Group’s twin goals of reducing extreme poverty and boosting shared prosperity in a sustainable manner by stimulating private sector-driven growth in the Palestinian IT services sector.** With potential for strong business linkages with some of the top experts globally in the IT services field, Palestinian IT service companies make for a singular opportunity to stimulate the kind of growth that could reduce poverty in the Palestinian territories, including in Gaza where about five times as many people are below the US$5.5 per day poverty line compared to the West Bank. Gaza happens to have a surplus of unemployed software engineering graduates every year, while some regional neighbors have a shortage. Improved opportunities for Gaza’s IT services/outsourcing companies and engineers would have a significant impact on boosting shared prosperity in the West Bank and Gaza.

30. **TechStart will address cross-cutting priorities, including gender, citizen engagement, and climate change.** TechStart will capitalize on opportunities to support female engineers in the IT services space and help women to enter management and leadership positions in companies. TechStart will initiate a citizen engagement program that will include setting up a mechanism whereby engineers, specifically women engineers can engage with the delivery team to discuss aspects of the training and feedback information that would be designed towards enhancing both the training modules and delivery thereof. The project will measure citizen engagement through beneficiary feedback indicators. The design of TechStart includes climate adaptation and mitigation measures.

31. **Finally, TechStart is in line with the framework for economic and social operational response to COVID-19.** At the country level, and in addition to supporting the health response, the World Bank program for COVID-19 response is expected to focus on (a) protecting the poor and vulnerable, (b) supporting businesses, and (c) accelerating recovery and strengthening economic resilience. TechStart focuses on (b) and (c), namely by supporting businesses in the IT services sector, and by accelerating recovery and strengthening economic resilience through its post-outbreak support for the sector.

*Building on other World Bank-funded projects to strengthen the innovation and entrepreneurship ecosystem in the West Bank and Gaza*

32. **TechStart continues and complements two other World Bank-funded projects that contribute to the building of a stronger and sustainable innovation and entrepreneurship ecosystem in the West Bank and Gaza.** The Finance for Jobs (F4J) Series of Projects provide support to the ecosystem through
multiple financing instruments, largely targeting job creation and social return, such as entrepreneurship ecosystem matching grants to participating Palestinian early-stage investment funds, development impact bonds, and an investment co-financing facility primarily aimed at larger-scale projects in all sectors. The Innovative Private Sector Development (IPSD) Project builds on these efforts by providing a complementary set of interventions to strengthen the start-up finance ecosystem in the West Bank and Gaza by (a) supporting the local angel investment networks and (b) facilitating linkages between regional early-stage investors, local angel investors, and entrepreneurs. While F4J and IPSD focus on addressing gaps in the entrepreneurship ecosystem and support startup growth, TechStart will focus on proposing a comprehensive solution to increase economic opportunities in the IT services sector by tackling problems both on the supply side (IT services companies and human capital) and demand side (international buyers). The potential synergies of these three World Bank-funded projects will be leveraged to maximize solutions deployed and complement instruments used to increase the impact on the ground. Moreover, TechStart will leverage and build on another World Bank program, the Education to Work Transition Project, that provides competitive grants to foster partnerships between tertiary education institutions and employers.

33. To support IT services companies in Gaza to address electricity challenges, TechStart will leverage the World Bank Electricity Sector Performance Improvement Project (ESPIP). ESPIP’s Component 3 has helped the Palestinian Energy and Natural Resources Authority establish a financing scheme for qualifying businesses (MSMEs) to receive rooftop solar photovoltaic systems. The cost of the system is repaid by the beneficiary MSME, at zero interest cost, through monthly instalments over a two- to three-year period.

34. TechStart will collaborate closely with International Finance Corporation (IFC) projects in the West Bank and Gaza. IFC advisory has been leading discussions and preparing a technical assistance program to improve the institutional capacity for investment promotion by strengthening institutional capacity of PIPA and improving investor services, especially around FDI promotion and facilitation. TechStart will also coordinate closely and leverage the IFC initiatives on entrepreneurship under the MENA Private Sector Development Program.

II. PROJECT DESCRIPTION

A. Project Development Objective (PDO)

35. The PDO is to increase economic opportunities for IT service firms in the West Bank and Gaza. Economic opportunities are defined as the set of circumstances that make the creation of an increasing number of high skilled and sustainable jobs possible, and hence increase revenues over the long term.

B. PDO-Level Result Indicators

36. The PDO-level indicators are the following:

   (a) Value of new contracts signed between local IT service firms benefiting from project activities and international buyers
(b) International buyers signing new contracts with local IT service firms benefiting from project activities

(c) Additional private investment made by firms benefiting from project activities toward technology and skill upgrading

37. The rationale behind the PDO indicators is as follows:

(a) International buyers signing new contracts with local IT service firms benefiting from project activities. The value of new contracts signed between local IT service firms benefiting from project activities and international buyers provides a proxy for the enhanced managerial and technological capabilities that local firms have built during the lifetime of the project. Those new capabilities are expected to be a proxy for the firms’ ability to generate more contracts in the future. Moreover, this indicator provides a proxy for capability building through learning-by-doing and knowledge transfer from international buyers, which positions firms for more contracts with more firms and for generating more jobs in the long run.

(b) The number of international buyers signing new contracts with local IT service firms benefiting from project activities provides a proxy for the local conditions for long-term job growth. Contracts from more international buyers signal that the demand side of the market recognizes that local firm capacity has been built and that there is local ecosystem in place to support them. A growth in international buyers is also expected to have a demonstration effect on global market for the West Bank and Gaza as an IT services/outsourcing destination, and hence lead to the attraction of more buyers and the creation of more local jobs.

(c) Additional private investment made by firms benefiting from project activities toward technology and skill upgrading provides a proxy for investment in building the capabilities of firms, and under the assumption that these investments in physical, relational, or human capital translate into enhanced capabilities, in their ability to gain more contracts from more buyers in the long term. This indicator also provides a proxy for the expectations of firms as to future growth in demand for their services, from which new jobs will be generated.

C. Project Components

38. The project aims to shift the dynamic equilibrium of the Palestinian IT sector toward one of continuous upgrading of firm capabilities and employment growth. It will do so by strengthening the supply of firm capabilities, increasing demand from international buyers and investors, and stimulating the absorption of high-tech knowledge in the ecosystem.

39. The project consists of four components tackling the supply side, the enabling ecosystem, and the demand side of IT services, as well as project management (table 1). A detailed project description is included in annex 2. Table 2.2 below includes factors addressed by each of the components.
- **Component 1: Improving IT service capabilities**, will strengthen the technological and human capabilities of firms and their workforce. It addresses the capability failures, information asymmetries, and positive externalities of training and upgrading that dissuade firms from investing in these activities on their own. It targets firms and individuals that require upskilling to better meet the need of buyers who expect suppliers to meet global standards.

- **Component 2: Improving the IT services ecosystem**, will support the entry of new actors in the IT ecosystem, who will support and complement existing actors. It will also help the private sector build the technology and business infrastructure that IT service companies rely on to compete. It addresses the information asymmetries regarding market risk among private firms, entrepreneurs and sources of finance, which dissuades them from investing in new ventures in the West Bank and Gaza. It targets private firms and entrepreneurs who already meet global standards.

- **Component 3: Improving market access and increasing demand and investments**, will stimulate demand through international market linkages, and will stimulate investment in the IT services ecosystem by encouraging FDI in the West Bank and Gaza. It addresses the capability failures, coordination failures, positive externalities, and information asymmetries that dissuade international firms from importing services and investing in Gaza and dissuade local firms from investing their private resources in raising awareness of the West Bank and Gaza’s market opportunities.

- **Component 4: Project management and implementation support**, will finance project management and monitoring (cost of the Project Implementing Agency [PIA]) as well as technical assistance to the MTIT.

**Table 1. Component and Subcomponents and their Direct Beneficiaries**

<table>
<thead>
<tr>
<th>Activities</th>
<th>Beneficiaries of Technical Assistance or Funding</th>
<th>Budget (US$, millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Component 1: Improving IT service capabilities</td>
<td>6.50</td>
</tr>
<tr>
<td>1.1</td>
<td>Human capital improvement stipends</td>
<td>Individuals and firms</td>
</tr>
<tr>
<td>1.2</td>
<td>Advisory services on managerial capabilities</td>
<td>Firms</td>
</tr>
<tr>
<td>1.3</td>
<td>IT and gender needs assessment and engagement</td>
<td>Individuals and firms</td>
</tr>
<tr>
<td>1.4</td>
<td>COVID-19 employment support subsidies</td>
<td>Individuals and firms</td>
</tr>
<tr>
<td>2</td>
<td>Component 2: Improving the IT services ecosystem</td>
<td>4.75</td>
</tr>
<tr>
<td>Activities</td>
<td>Beneficiaries of Technical Assistance or Funding</td>
<td>Budget (US$, millions)</td>
</tr>
<tr>
<td>---------------------------------------------------------------------------</td>
<td>--------------------------------------------------</td>
<td>------------------------</td>
</tr>
<tr>
<td>2.1 Seed grants to stimulate private investments in the IT service ecosystem</td>
<td>Individuals and firms</td>
<td>2.25</td>
</tr>
<tr>
<td>2.2 Grants for shared R&amp;D hubs</td>
<td>Firms</td>
<td>2.00</td>
</tr>
<tr>
<td>2.3 Grants for IT business infrastructure (focus on Gaza)</td>
<td>Firms</td>
<td>0.50</td>
</tr>
<tr>
<td>3 Component 3: Improving market access and increasing demand and investments</td>
<td></td>
<td>1.50</td>
</tr>
<tr>
<td>3.1 Awareness raising and international market linkages</td>
<td>Firms</td>
<td>0.80</td>
</tr>
<tr>
<td>3.2 Promotion and facilitation of FDI in the Palestinian IT ecosystem</td>
<td>Firms</td>
<td>0.70</td>
</tr>
<tr>
<td>4 Component 4: Project management and implementation support</td>
<td></td>
<td>2.25</td>
</tr>
<tr>
<td>4.1 Project management and monitoring; Technical assistance to MTIT</td>
<td>PIA</td>
<td>2.25</td>
</tr>
</tbody>
</table>

40. **The sequencing of project components will aim to maximize impact and avoid bottlenecks.** Component 1 will be prioritized to reflect existing strong demand for firm and skills upgrading activities. Moreover, Component 1 is expected to yield shorter-term results than Components 2 and 3. The deployment of Components 2 and 3 is then expected to create the conditions for a second round of activities in Component 1, by linking local firms with international buyers who can support on-the-job training activities in Component 1 and by providing firms with the business and technological infrastructure they require to gain more contracts.

**Measures to Mitigate the Economic Impact of COVID-19**

41. **The project includes special activities to address COVID-19 outbreak phases and ensure that the IT services sector is well-positioned to contribute to the West Bank and Gaza’s economic recovery.** Outbreak activities will assist solvent and sound firms to weather the liquidity shock through wage support for firms undertaking virtual training and process or systems upgrading activities (Component 1). The project will also provide specific support to IT service firms affected by COVID-19 demand shocks to reposition themselves, through advisory services (Component 1), and to find new customers, through market linkage services (Component 3). During COVID-19 recovery phases, the project will provide specific support to affected firms that need to reconstitute themselves or to newly launched firms that will help reconstitute the industry, through business seed grants (Component 2) and early-stage business advisory services (Component 1).
42. The proposed COVID-19 related measures to be supported by the project are in line with measures adopted by other countries at the global level for economic relief and recovery during the COVID-19 crisis. The project includes grants, employment support subsidies, and technical assistance which will help businesses respond to the economic effects of the lockdown. The project also includes human capacity strengthening, managerial capability strengthening, market linkage support, investment promotion support, and seed financing for new businesses which will help the sector relaunch during the recovery and pivot toward the most sustainable and economically resilient global market segments.

43. The project contains the flexibility required to adapt to local circumstances and provide customized support to firms, including to adapt as the economic impact of COVID-19 unfolds. The project uses a holistic approach addressing the supply and demand sides of the market as well as linkages between the two and a supportive ecosystem. The project also uses a mix of technical assistance and grants to both businesses and their workers. The project’s multipronged approach provides the project with the ability to provide a customized response to economic impact.

**Governance and Management of Grants**

44. To be eligible for funding, firms will have operations conducted in the West Bank or Gaza. Each company applying for grants will meet the following eligibility criteria: (a) be a company legally registered in West Bank or Gaza; and (b) ownership team (founder/co-founders and directors) will pass business fiduciary background checks.

45. Grant funds will be used for strategic business development purposes, and the application will include a project proposal and budget that identifies the use of funds. Guidelines regarding project uses of funds will be developed and outlined in the Grant Fund Operations Manual. GAs with recipients will include conditions that prevent the misuse of grant funds, such as the use of grant funds as distributions or dividends paid to investors (either cash or shares) or other activities forbidden through shareholder or company operating agreements as specified in the subgrant agreements.

46. Applications for grants will be submitted directly to the PIA on a rolling basis. The PIA will carry out the review, selection, and management of grants (including stipends). An independent Grant Committee will be established and will include experts with relevant industry experience. The PIA will conduct reviews of applications as well as conduct relevant due diligence and will pass along qualifying applications to the Grant Committee for technical review and approval. The PIA will also ensure that the required proposals do not trigger any safeguards categories beyond what has been assigned by the World Bank for this project. The POM will ensure that clear detailed eligibility criteria are documented, applied, and monitored. Moreover, Grant Committee members will be selected based on certain criteria to ensure that they are qualified and independent. The PIA will also ensure that PIA staff or members of the Grant Committee will be excluded from the selection process in case of conflicts of interest such as current or prior business or personal relationships with a beneficiary firm under consideration, and members of the PIA and of the Grant Committee will be under requirements to disclose such real or potential conflict of interest.
47. **The PIA will then be responsible for monitoring whether beneficiaries are adhering to the conditions of the funding during the project.** Relevant procedures will be described in the POM. Co-financing matching shares, total amounts, and detailed selection criteria will be specified in the POM and are expected to be adjusted throughout the project to reflect market feedback or changes in the country’s fragile context. The need for adjustments reflects lessons learned from World Bank matching grant projects.\(^{42}\) Funding and technical assistance will be halted for beneficiaries who do not adhere to the conditions of the project and the PIA will request a reimbursement of funds from firms who have received grants.

48. **Firms will be eligible to benefit from multiple support instruments offered in the project or from the same instruments successively.** The same firms will be able to apply for technical assistance and grants and benefit from workers with stipends multiple times during the project. The exception will be the seed grants in Component 2 which firms will only be able to receive once.

49. **The project has been designed to incorporate grants, stipends, and technical assistance design and management measures that aim to ensure their additionality and impact.** For each subcomponent, these additionality and impact measures are detailed in annex 2. The project components will address the factors affecting the dynamics of the ecosystem (see figures 1 and 2 and table 2).

50. **The project’s activities will address the factors depicted in figure 1. The project will act across all of the depicted factors but will focus on some more than others (see figure 2 in section II.D Results Chain).** For example, while the project will promote on-the-job learning and training and private training providers, it will not undertake the higher education reforms that will be necessary for more significant growth of the pool of local talent and to provide students and faculty with more practical learning opportunities and access to more R&D infrastructure. Moreover, while the project will support the development and deployment of solutions to gender imbalances at the firm level, it will not do so at the societal level, which is a much-needed undertaking but outside the scope of the project. The project will also not contribute to building public infrastructure or to providing energy equipment or services to firms. The World Bank ESPIP focuses on access to energy in the West Bank and Gaza. While the project will create incentives for investments and exports in IT services, the project will not address trade barriers and investment climate barriers that discourage FDI and global value chain integration, and distort the market. These longer-term reforms are being addressed through complementary World Bank Group and donor activities. In spite of operating in a challenging context, the project is expected to have PDO-level impacts, based on knowledge from results obtained from recent IT service export and sector development projects supported by the European Union (EU), UK Department for International Development (DFID), and US Agency for International Development (USAID).

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Table 2. Factors Targeted by Project Activities

<table>
<thead>
<tr>
<th>Activities</th>
<th>Factors Targeted</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Capability</td>
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<tr>
<td></td>
<td>Failures</td>
</tr>
<tr>
<td>1 Component 1: Improving IT service capabilities</td>
<td></td>
</tr>
<tr>
<td>1.1 Human capital improvement stipends</td>
<td>x</td>
</tr>
<tr>
<td>1.2 Advisory services on managerial capabilities</td>
<td>x</td>
</tr>
<tr>
<td>1.3 IT and gender needs assessment and engagement</td>
<td>x</td>
</tr>
<tr>
<td>1.4 COVID-19 employment support subsidies</td>
<td>x</td>
</tr>
<tr>
<td>2 Component 2: Improving the IT services ecosystem</td>
<td></td>
</tr>
<tr>
<td>2.1 Seed grants to stimulate private investments in the IT service ecosystem</td>
<td></td>
</tr>
<tr>
<td>2.2 Grants for shared R&amp;D hubs</td>
<td>x</td>
</tr>
<tr>
<td>2.3 Grants for IT business infrastructure (focus on Gaza)</td>
<td></td>
</tr>
<tr>
<td>3 Component 3: Improving market access, and increasing demand and investments</td>
<td></td>
</tr>
<tr>
<td>3.1 Awareness raising and international market linkages</td>
<td>x</td>
</tr>
<tr>
<td>3.2 Promotion and facilitation of FDI in the Palestinian IT ecosystem</td>
<td>x</td>
</tr>
<tr>
<td>4 Component 4: Project management and implementation support</td>
<td></td>
</tr>
<tr>
<td>4.1 Project management and monitoring; Technical assistance to MTIT</td>
<td>x</td>
</tr>
</tbody>
</table>
Component 1: Improving IT service capabilities (US$6.5 million)

51. Component 1 will address skill gaps among IT service firms in the West Bank and Gaza through three subcomponents (table 3). These firms are not able to increase their revenues or gain new customers due to limitations in the individual skills of their workforce and in their managerial and organizational capabilities. The component will include a mix of technical assistance to firms, stipends for individuals to gain practical on-the-job skills, and firm-level grants to address these challenges.

52. Technological upgrading of Palestinian IT service firms requires building a cadre of young employees that is gender diverse, with the skills they need to respond to international market demand, as well as building a cadre of team leaders with at least five years of experience who can lead fresh graduates, as well as senior leaders with a deep understanding of technology options and markets to mentor team leaders and inform the firm’s technology strategy. This cadre of team leaders and senior leaders is critically missing in the West Bank and Gaza’s IT services companies.

Table 3. Overview of Component 1

<table>
<thead>
<tr>
<th>Support Scheme</th>
<th>Beneficiaries</th>
<th>Main Eligibility Criteria</th>
<th>Governance Mechanism</th>
<th>Cost Sharing (Project/firms)</th>
<th>Performance Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internship stipends window</td>
<td>Individuals and firms</td>
<td>Internship providers legally registered in the West Bank and Gaza and work in IT</td>
<td>The PIA selects individuals and firms based on eligibility criteria.</td>
<td>Co-funding ratio of 50/50 to 70/30 For smaller and Gaza-located firms—and when internship is for females—co-funding ratios from 70/30 to 80/20</td>
<td>Cost sharing</td>
</tr>
<tr>
<td>On-the-job training stipends</td>
<td>Individuals and firms</td>
<td>Employment contracts with beneficiary Palestinian IT service company International buyer soft contracts (no payment) and training commitment</td>
<td>The PIA and Grant Committee selects individuals and firms based on eligibility criteria.</td>
<td>Overhead costs covered by beneficiary International buyers contribute to training</td>
<td>Cost sharing and market incentives for follow-up contracts</td>
</tr>
<tr>
<td>Support Scheme</td>
<td>Beneficiaries</td>
<td>Main Eligibility Criteria</td>
<td>Governance Mechanism</td>
<td>Cost Sharing (Project/firms)</td>
<td>Performance Measures</td>
</tr>
<tr>
<td>----------------------------------------</td>
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<td>---------------------------------------------------------------------------------------------</td>
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</tr>
<tr>
<td>Expatriate stipends</td>
<td>Individuals and firms</td>
<td>Employers must have diagnostic of gaps and expatriation utilization plan.</td>
<td>The PIA and Grant Committee selects individuals and firms based on eligibility criteria.</td>
<td>Beneficiary firms cover salary and performance-based bonuses. Project only covers additional expatriation costs.</td>
<td>Cost sharing</td>
</tr>
<tr>
<td>COVID-19 online upskilling stipends</td>
<td>Individuals</td>
<td>Firms will submit information on staff affected by COVID-19, their training plans, and how it relates to their business resilience plans.</td>
<td>The PIA selects individuals based on proposals submitted by firms to conform with eligibility criteria.</td>
<td>Firms will need to keep the staff employed.</td>
<td>Improved value proposition for staff and firms.</td>
</tr>
</tbody>
</table>

1.2: Advisory services on managerial capabilities

| Technical assistance | Firms | Firms must undergo diagnosis and have potential to improve performance. | The PIA selects firms based on eligibility criteria. | Beneficiary firms to sign contracts outlining internal resources invested in the upgrading program. | Beneficiary firms will need to meet performance milestones to retain project support. |

1.3: IT and gender needs assessment and engagement

| Technical assistance | Firms | Firms must generate commercial revenues from IT services. | The PIA selects firms based on eligibility criteria. | Firms to commit resources toward design, piloting, or implementation of the gender solutions. | Solutions will be validated and improved through short experiments and piloting before being scaled. |
### Support Scheme | Beneficiaries | Main Eligibility Criteria | Governance Mechanism | Cost Sharing (Project/firms) | Performance Measures
--- | --- | --- | --- | --- | ---
1.4: COVID-19 employment support subsidies | Employment subsidies | Individuals and firms | Firms need to demonstrate that the staff are underutilized due to the COVID-19 crisis and firms cannot keep them. | The PIA selects the firms and individuals based on eligibility criteria. | Firms will need to keep the staff employed. | Jobs are not lost.

**Subcomponent 1.1: Human capital improvement stipends (US$4 million)**

53. **Overview of subcomponent.** This subcomponent will help upgrade the skills of the Palestinian IT service workforce through provision of stipends for: (a) part time and full time internships for students or recent graduates; (b) on-the-job training for recently hired IT professionals; (c) international workers with relevant technical and managerial skills to cover additional costs of hiring international workers to be employed in senior and/or leadership roles in West Bank and Gaza; and (d) costs of enrollment into online training and/or certification programs for staff of existing IT service firms whose employment has been negatively affected by COVID-19 crisis.

54. **Rationale.** Many of the skills required to work on internationally competitive commercial IT services contract are those that cannot be learned in formal academic or classroom training settings but require learning-by-doing on the job (that is, informal training). This is because much of this learning is experiential, many of the skills are tacit, some are very client or project-specific, and much of this training requires access to corporate staff, knowledge, processes, and technologies that are not available to the public. In the West Bank and Gaza, the competitive position of IT service firms is largely a function of their human capital. Faced with workers who can easily go work for a competing firm, it is therefore difficult for companies to fully capture the returns of investments in the salaries and other costs of workers undergoing on-the-job learning. Moreover, local firms lose their price competitiveness if they pass job-training costs to their clients. The resulting risks and externalities provide disincentives for local firms to offer on-the-job-training to their workers.

55. **Intervention.** This subcomponent will make use of stipends, which consist of financial remuneration paid directly to individuals on a time-bound basis while they are gaining skills or imparting skills to others. This funding will be available through four funding windows: internships stipends, on-the-job training stipends, expatriate stipends, and COVID-19 online skills upgrade stipends.
56. **Internship stipends window.** These stipends will be available for part-time internships, to Palestinian students in their last years of university studies, and for full-time internships, to Palestinian university graduates who need to gain knowledge and practical skills in mid-level or advanced-level value added IT services (see annex 4). The supported internships are expected to lead to full-time jobs once the internship period is over. The internships stipends will be granted to individuals to work in IT services companies and high-tech\(^43\) enabled startups that need to skill up the workforce to scale up their business. Stipends for part-time internships will cover students working for a local company, on local or international client-related work. These stipends can cover transportation and allowance.

57. **On-the-job training stipends window.** These stipends will help cover the remuneration of new Palestinian IT staff who need to gain knowledge and practical skills in mid-level or advanced-level value added services (see annex 4) that cannot be found easily in the Palestinian labor force but are essential to being hired for new outsourcing/IT services projects with international buyers. To be eligible for these stipends, individuals will need to have a signed employment contract (short term, if necessary) with a Palestinian IT company which will engage them on a project for which they have a project agreement or soft contract with an international buyer. For its workforce to be eligible, the Palestinian IT company will need to demonstrate in its application that its trainees will receive practical training and mentoring during the project from the company's international buyer and the trainees have been approved by that buyer.

58. **Expatriate stipends window.** These stipends will be paid to international staff, who have senior technological expertise or leadership experience, to work with Palestinian IT services firms to build the technical and managerial capacity of their workforce. Expatriate stipends will help cover the additional costs of hiring individuals with international skillsets that cannot be found in the West Bank and Gaza. These stipends will help local companies cover expatriate compensation packages. Expatriates will be required to have senior technological or leadership roles during the terms of their contracts to maximize high-tech knowledge transfer and build teams of juniors. Expatriates will need to be either integrated in revenue-generating client projects or be involved in strategic roles to upgrade the capabilities of the enterprise (for example, as temporary Chief Technology Officer or support to improve internal systems and processes).

59. **COVID-19 online skills upgrade stipend window.** This window will provide grants to individuals to cover their online training and certification costs. These stipends will be provided to IT services company staff who can no longer be assigned to client projects or to internal management functions due to losses from client revenues. To be eligible for the stipends, individuals will need to enroll into online training and/or certification which is relevant to their careers.

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\(^{43}\) High-tech startups are based on extremely risky applications of technology to a novel area, which usually requires an R&D phase, several rounds of prototyping, and then slow adoption in an uncertain market. A high-tech enabled startup uses existing technologies in creative ways to conceive and realize new products and services.
Subcomponent 1.2: Advisory services on managerial capabilities (US$1 million)

60. **Overview of subcomponent.** This subcomponent will design and provide a program of technical assistance activities to eligible Palestinian IT service firms to improve (a) their managerial and organizational capabilities; (b) implementation of business resiliency measures and business relaunch measures to respond to COVID-19 crisis; and (c) strategy and leadership skills, including outreach and awareness raising for the program. This subcomponent will seek to eliminate the gap between IT service firms’ managerial and organizational capabilities and global best practices.

61. **COVID-19 economic impact response measure.** The subcomponent will also include specialized technical assistance to help firms implement business resiliency measures and business relaunch measures to cope with the COVID-19 crisis. Resiliency measures will be targeted to existing IT services firms and help them both survive the existing crisis situation (such as lockdowns or revenue drops). Business relaunch support will be provided in the form of coaching targeted to IT service businesses that have lost most of their staff and become micro-businesses and to new IT service micro-businesses that have been launched by staff of IT firms who have lost their jobs due to the crisis. Firms receiving business relaunch support will have a streamlined application process that will be detailed in the Project Operations Manual (POM).

62. **Rationale.** Global evidence shows that SMEs operate less productively than large firms because of knowledge gaps around management and organizational practices, including in their knowledge of areas of improvements. In regions and countries that are operating far from the global management frontier, or where the geographic density of businesses is low, there are few opportunities for businesses to acquire management practices from demonstration effects or through human capital mobility. Moreover, the smaller the firm, the smaller their ability to internalize specialize management functions due to indivisibilities of labor. To address these challenges, many countries have developed long traditions of industrial extension services.

63. **Intervention.** This subcomponent will provide technical assistance to the Palestinian IT service firms on management, organizational development, strategy, and leadership and where needed and relevant, energy efficiency, through a structured program. The PIA will provide technical assistance to local firms to upgrade their managerial capabilities through contracts with business advisers. The program will help firms adopt general good managerial practices as well as practices that are specifically required by existing and potential clients.

Subcomponent 1.3: IT and gender needs assessment and engagement (US$0.5 million)

64. **Overview of subcomponent.** This subcomponent will conduct assessment of gender issues in Palestinian IT services sector, identifying policy reforms to promote women’s participation in IT sector, developing and piloting proposed interventions, and conduct impact assessment of the pilots. This intervention will seek to increase the access of women to IT service companies, including to management
and leadership positions. The PIA and MTIT will collaborate closely in developing the gender assessment and identifying policy reforms needed to support women employment in IT sector.

65. **Rationale.** The Palestinian IT services sector should do more to leverage the role of women in the sector, including in leadership positions. However, there is limited data and knowledge on the employment landscape of IT service companies in the West Bank and Gaza and of the different constraints and opportunities faced by men and women. Moreover, there is limited evidence of what interventions would have the largest and most sustainable impact on gender in the West Bank and Gaza’s IT services sector.

66. **Intervention.** This subcomponent will support the implementation of a gender assessment which will (a) shed light on the employment landscape of the IT service companies, (b) create a better understanding of the expectations faced by hiring managers when it comes to recruitment, retention, and promotion of their staff, and (c) identify the constraints and opportunities faced by male and female employees working in the sector as well as their aspirations for accessing and participating in leadership positions. On this basis, the PIA will identify potential interventions to address gender issues in IT services employment. The project will issue a call for proposals for IT service firms wishing to receive technical support and in-kind support from the PIA to implement gender solutions. The PIA will provide beneficiary firms with technical assistance to design, prototype, and pilot solutions. The PIA will subsequently launch another call for proposals for technical assistance to firms looking to scale solutions that were validated through the pilots.

**Subcomponent 1.4: COVID-19 employment support subsidies (US$1million)**

67. **Overview of subcomponent.** This subcomponent will provide employment subsidies to staff of eligible Palestinian IT service firms receiving support under Subcomponent 1.1, COVID-19 online skills upgrade window, or under Subcomponent 1.2, Covid-19 economic impact response measure, whose employment has been negatively affected by COVID-19 crisis. The employment subsidies will be provided to existing IT services company staff who can no longer be assigned to client projects or to internal management functions due to losses from client revenues and risk losing their jobs.

68. **Rationale.** This subcomponent will help businesses respond to the economic effects of the lockdown and provide needed liquidity to support them to keep staff in employment. Moreover, in exchange for employment subsidies, requiring staff to upgrade their skills or businesses to upgrade processes as part of business resiliency measures will increase their chances to cope with the COVID-19 crisis. Upgrading the skills of the staff affected by crisis will help the companies either become more globally competitive when they emerge from the crisis, become more resilient during the crisis, or reposition themselves to new market segments that are resilient to the crisis.

69. **Intervention.** The employment subsidies will be provided to existing IT services company staff that risk losing their jobs. To be eligible for the employment subsidies, staff will need to enroll into the
online training and/or certification under Subcomponent 1.1, COVID-19 online skills upgrade window. This subcomponent will also provide employment subsidies to staff dedicated to the implementation of business upgrading processes as part of the performance improvement plans of businesses benefiting from the advisory services under Subcomponent 1.2.

Component 2: Improving the IT services ecosystem (US$4.75 million)

70. This component will provide competitive grants to stimulate private sector investments in the entry of new actors in the IT ecosystem and in new business and research infrastructure for IT service firms (table 4). New actors will provide new services to the Palestinian market that will enhance the competitiveness of Palestinian IT service firms. These will include services related to human capital strengthening and access, including commercial training providers and human resource (HR) IT service providers. New actors will also invest in establishing Palestinian IT service firms that will broaden the scope of services offered by the Palestinian IT services market. The grants will also support business infrastructure at the firm-level and one or more research centers.

<table>
<thead>
<tr>
<th>Support Scheme</th>
<th>Beneficiaries</th>
<th>Main Eligibility Criteria</th>
<th>Governance Mechanism</th>
<th>Cost Sharing (Project/firms)</th>
<th>Performance Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1: Seed grants to stimulate private investments in the IT service ecosystem</td>
<td>Firms</td>
<td>Track record</td>
<td>The PIA and Grant Committee select firms based on eligibility criteria.</td>
<td>Firms must match grants (50/50 co-funding ratio).</td>
<td>Cost sharing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Demonstration of growth potential</td>
<td></td>
<td>Women-led firms will be eligible for a 70/30 co-funding ratio.</td>
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<tr>
<td>New IT services operations</td>
<td>Firms</td>
<td>Demonstration of (a) a validated business model, (b) a global track record of getting trainees employed, and (c) the ability to rely on a market-based business model without public subsidies</td>
<td>The PIA and Grant Committee select firms based on eligibility criteria.</td>
<td>50/50 co-funding basis for the initial costs to establish new business operations</td>
<td>Cost sharing</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Grants partly disbursed on training outputs, employment outcomes, and women employment outcomes</td>
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<tr>
<td>New training service providers</td>
<td>Firms</td>
<td>Registration in the West Bank and Gaza and</td>
<td>The PIA and Grant Committee</td>
<td>50/50 co-funding</td>
<td>Cost sharing</td>
</tr>
<tr>
<td>New HR IT service providers</td>
<td>Firms</td>
<td></td>
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</tbody>
</table>

Table 4. Overview of Component 2
2.2: Grants for shared R&D hubs

<table>
<thead>
<tr>
<th>Grants</th>
<th>Firms</th>
<th>R&amp;D hub with institutional autonomy and a business plan to offer services on a commercial basis</th>
<th>The PIA and Grant Committee select firms based on eligibility criteria.</th>
<th>50/50 co-funding</th>
<th>Cost sharing</th>
</tr>
</thead>
</table>

2.3: Grants for IT business infrastructure (focus on Gaza)

<table>
<thead>
<tr>
<th>Grants</th>
<th>Firms</th>
<th>Demonstrated ability to meet demand is affected by improper business infrastructure capacity</th>
<th>The PIA and Grant Committee select firms based on eligibility criteria.</th>
<th>Co-funding ratios from 50/50 to 80/20—with possible more generous ratios for small, Gaza-located, or women-led firms</th>
<th>Cost sharing</th>
</tr>
</thead>
</table>

Subcomponent 2.1: Seed grants to stimulate private investments in the IT service ecosystem (US$2.25 million)

71. Rationale. The seed grant’s objective will be to de-risk, encourage, and enable the launch of new companies in the West Bank and Gaza’s IT services market. The subcomponent will help attract technological competencies, industry expertise, and customer networks that are not yet available in the West Bank or Gaza. The private sector alone tends to underinvest in new-to-the-market services due to innovation risks and partial appropriability of returns in light of prospective imitators in the market and of human capital mobility.
73. **Intervention.** This subcomponent will provide seed grant co-funding to individual entrepreneurs who are established in the West Bank and Gaza (grants to individuals before they establish legal entities) and to new West Bank and Gaza business operations (grants to locally established companies) that can strengthen competitiveness of the IT services sector. Grants will be provided through three windows to entrepreneurs or companies that met the eligibility criteria.

74. **Grant window 1: New IT services operations.** The seed funding will support the costs required to establish new business operations in the West Bank or Gaza as detailed in a credible business model submitted by the applicant. These costs can include working capital, software, product development and testing, market testing, sales and business development, and organizational development. The seed funding will also support the establishment of branches/subsidiaries of West Bank companies in Gaza, and of Gaza companies in the West Bank.

   - **COVID-19 Economic Impact Response Measure.** Grant window 1 will include a separate streamlined application process for IT service firms that have become micro-businesses as a result of downsizing due to the COVID-19 crisis, and to staff of IT firms who have lost their jobs due to the COVID-19 crisis and are in the process of launching or have launched, new IT service firms.

75. **Grant window 2: New training service providers.** Because there are no existing commercial IT training providers catering to graduates and private sector companies in the West Bank and Gaza, the seed grant’s objective will be to de-risk, encourage, and enable the establishment of new providers. Service providers could include, for example, bootcamp providers and training institutions established internationally, that already have a validated business model and a global track record of getting trainees employed by local and international companies. The seed funding will support (a) the initial costs required to establish new business operations in the West Bank or Gaza as detailed in a credible business model submitted by the applicant. These costs can include working capital, software, market testing, business development, organizational development, and capacity building (for example, training the trainers) and (b) the cost of the trainings based on results. The newly established training providers will be encouraged to leverage the F4J Development Impact Bond (DIB) before applying for trainings support under TechStart.

76. **Grant Window 3: New HR IT service providers.** Palestinian firms face challenges in recruiting and finding new employees with the skills that meet the needs of new client projects. This can lead to long delays in recruiting staff or mismatches between the staff being recruited and the requirements of a client project. Because there are no existing commercial HR IT service providers established in the West Bank and Gaza, the seed grant’s objective will be to de-risk, encourage, and enable the launch of new providers. HR IT companies will be expected to bring the modern HR IT recruitment best practices, technology, databases, psychological selection tools, or candidate management practices to the Palestinian market. Seed grants will support service providers with resources to test and validate a business model that is
financially sustainable. These costs can include working capital, software, market testing, business development, and organizational development.

Subcomponent 2.2: Grants for shared R&D hubs (US$2 million)

77. Overview of subcomponent. This subcomponent will provide matching grants to support establishment of R&D hubs for exploration of particular targeted technologies relevant to Palestinian IT firms through financing of office and technology equipment, high-speed internet connections, software and software licenses, operating costs, and salaries of employees of the R&D hubs. This intervention will provide incentives for private sector investments in one or more R&D hubs that will provide services to local firms, startups, and universities.

78. Rationale. Support for an R&D hub is justified based on coordination failures among ecosystem actors and spillovers of R&D activities. Palestinian IT service firms are relatively small and no single firm in the market has the ability to invest in some of the technology they would require for developing capabilities for R&D and for new contracts. Coordination failures arise from the difficulties that although an R&D hub might benefit both local IT firms and the local and international clients they serve, there are considerable transaction cost challenges in jointly planning and investing in an R&D hub.

79. Intervention. This subcomponent will support one (or more) R&D hub(s) that is demand-driven as demonstrated by financial co-sponsorship from the private sector and by business models with long-term sustainability prospects. The R&D hub will be expected to offer technology facilities and services to private sector clients. The project will not fund an R&D hub that is intended for the private use of a single firm alone. R&D hub proposals will need to demonstrate that the targeted technology area is clear and unserved in the local market, that there is a defined market for the knowledge services where there is demand for Palestinian deals, and where the related technologies will be available. The project will consider R&D hubs that are combined with different business models, such as co-working spaces.

Subcomponent 2.3: Grants for IT business infrastructure (focus on Gaza) (US$0.5 million)

80. Overview of subcomponent. This subcomponent will provide matching grants to eligible Palestinian IT service firms to finance business infrastructure, including, inter alia, office furniture, high-speed internet connections, technology to facilitate remote work, computer and technology equipment, and operating costs. This subcomponent will provide IT services firms with access to the minimum business infrastructure they need to operate their businesses, namely IT equipment and office facilities. It will achieve this by providing matching grants for either individual firms and/or a group of firms for shared infrastructure. While the focus of the support will be on Gaza, companies in the West Bank are also eligible to apply.

81. Rationale. A minimum level of business infrastructure is required before high-quality IT services can be marketed. This includes company office space improvements and equipment, broadband internet,
land or cloud-based network infrastructure, and other hardware and software. Due to the physical isolation of Gaza and its resulting highly distorted economy, some of the elements of the necessary minimum IT business infrastructure in Gaza are either missing or scarce. The grants will provide equipment that would not be considered highly specialized and hence not provided through grants outside fragility, conflict, and violence (FCV) contexts with high market distortions such as Gaza.

82. **Intervention.** Matching grants for IT business infrastructure will be provided to firms that meet minimum eligibility requirements. The company will have a credible business plan that is financially sustainable in the long term and demonstrate growth potential. Beneficiary firms will also need to demonstrate in their proposals that their ability to fulfill client demands is affected by improper business infrastructure capacity. These grants will complement the other interventions (for example, companies who are part of the managerial and organizational capabilities intervention might need support to achieve specific milestones agreed with the business assessor or companies who are scaling their business due to project intervention and need support due to increased demand).

83. **COVID-19 Economic Impact Response Measure.** Business infrastructure grants will cover 100 percent of the costs of high-speed internet connections and software licenses that enable staff of IT service firms to work from home (for example, virtual meetings and project management). This will enable companies to continue working on client projects during lockdown periods.

**Component 3: Improving market access and increasing demand and investments (US$1.5 million)**

84. This component aims to stimulate global demand for Palestinian IT services by reducing information costs, search costs, and transaction costs among international buyers, investors, and local firms (table 5). It also seeks to stimulate demand by brokering collective action and deals among international buyers, international investors, and local firms. Activities will be guided by market research which will focus on (a) the needs and requirements of international buyers; (b) the strengths and gaps of the Palestinian IT sector; and (c) barriers in the investment climate, in particular those of regulatory and institutional nature, that affect the location determinants of international investors in the IT sector (see annex 2 for more detail). The market information collected will also be used to inform the selection and assessment of seed grant proposals under Component 2.

<table>
<thead>
<tr>
<th>Support Scheme</th>
<th>Beneficiaries</th>
<th>Main Eligibility Criteria</th>
<th>Governance Mechanism</th>
<th>Cost Sharing (Project/Firms)</th>
<th>Performance Measures</th>
</tr>
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<tbody>
<tr>
<td>3.1. Awareness raising and international market linkages</td>
<td>Matchmaking of local firms and international</td>
<td>Suitability of firm</td>
<td>The PIA selects firms based on basic eligibility criteria and</td>
<td>The firms must cover costs necessary to meet the</td>
<td>A funnel approach will be used to match international buyers and their</td>
</tr>
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</table>

Table 5. Overview of Component 3
<table>
<thead>
<tr>
<th>Support Scheme</th>
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</tr>
</thead>
<tbody>
<tr>
<td>buyers and coaching</td>
<td></td>
<td>international leads.</td>
<td>buyers.</td>
<td>local suppliers and KPIs related to leads generated.</td>
<td></td>
</tr>
</tbody>
</table>

3.2. Promotion and facilitation of FDI in the Palestinian IT ecosystem

| Promotion campaign, outreach, and investor advice | Firms | Selection criteria for investor targeting will be informed through market assessments, including competitive benchmarking. | The PIA selects firms based on basic eligibility criteria and international leads. | The firms must cover costs related to foreign investment. | A funnel approach will be used for company targeting. |

**Subcomponent 3.1: Awareness raising and international market linkages (US$0.8 million)**

85. **Overview of subcomponent.** This subcomponent will engage international intermediaries to provide awareness raising and matchmaking services for Palestinian IT sector abroad and broker business deals, in order to: (a) increase international awareness of outsourcing opportunities in the West Bank and Gaza; (b) locate global customers for Palestinian IT firms adversely affected by COVID-19; and (c) facilitate deals in the Palestinian IT outsourcing sector. This intervention will raise international awareness of IT service opportunities in the West Bank and Gaza and facilitate deals in outsourcing/IT services between international firms and the West Bank and Gaza.

86. **Rationale.** Global evidence has shown that market linkages are constrained by coordination and information failures. The West Bank and Gaza suffers from perception issues from international buyers. This limits opportunities for expanding into the Palestinian market or engaging in it at all. Moreover, international buyers face difficulties in understanding the market and the business environment. Local firms in the sector, however, are still young, small, and have not yet developed the capabilities to approach global markets or understand what types of business opportunities are available with international buyers and what it takes to effectively engage with them.

87. **Intervention.** Under this subcomponent, the project will support the strategic promotion of market linkages by providing matchmaking services between international buyers and Palestinian companies. Matchmaking implies a more active role than information provision and involves focusing on the specific needs of international buyers and the capabilities of local firms. Matchmaking can take
multiple forms and varied degrees of complexity: from organizing one-on-one matchmaking and acting as a broker and adviser in negotiations to sponsoring fairs, exhibitions, missions, and conferences.

88. The project will identify demand and generate leads from a potential export client according to a predefined business development process. The lead will then be conveyed to Palestinian firms who are registered in the export promotion service. Because not all local firms will have the capabilities to credibly respond to international business leads, it will be important that the PIA has developed a set of selection criteria that ensures that most suitable local firms will follow up on the business lead. The PIA will coach selected Palestinian companies during their interaction with international buyers. The PIA will develop an export promotion plan with KPIs and targets. Details will be specified in the POM.

89. COVID-19 Economic Impact Response Measure. This subcomponent will include a dedicated measure to help IT service firms that have lost revenues in global market segments affected by the COVID-19 crisis to find new customers. This will help businesses avoid laying off staff that are underutilized due to loss of revenue and will help businesses reorient themselves to more resilient market segments. Where businesses do not have the managerial or technical capabilities to reorient themselves to new customers, they will be guided to first apply to human capital and business advisory support offered in Component 1.

Subcomponent 3.2: Promotion and facilitation of FDI in the Palestinian IT ecosystem (US$0.7 million).

90. Overview of the subcomponent. This subcomponent will provide technical assistance and consulting services to (a) improve delivery of investor services, (b) increase investor outreach campaigns, (c) generate new investment leads, and (d) assist foreign investors with establishing business presence in West Bank and Gaza. The objective of this intervention is to leverage FDI for bringing new know-how, managerial processes, technology, market services, global client networks, and investments to the West Bank and Gaza.

91. Rationale. Information asymmetries constitute a significant obstacle to FDI flows. Investment decisions are influenced by risk-return calculations. Thus, the provision of compelling information to support and influence investor decision-making is crucial to catalyze potential investor interest and lower perceived country risk. The need for information and facilitation services is even more pronounced in FCV-contexts that suffer from lack of credible information and an, often, overly negative image. By working in

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close collaboration with PIPA, PalTrade, and PITA, the project will also contribute to capacity building of the agencies to learn how to attract and manage investment projects and to shift away from simply offering incentives and focusing on domestic investors only.

92. **Intervention.** This subcomponent will promote and facilitate FDI in the Palestinian IT ecosystem. It will also attract FDI from global IT companies either in the form of investments in existing firms or in the form of subsidiaries. It will also facilitate international deal flow for areas of development that grants seek to stimulate in Component 2, such as HR business providers, technology training and bootcamp providers, IT services entrepreneurs, and R&D infrastructure investors. The project will provide a set of marketing and information services with the main goal of generating awareness and interest in the value propositions that an economy can offer. The PIA will prepare and implement a strategic investor outreach campaign where they will establish contacts with prospective investors, develop an investment funnel system with targets, and generate new leads. Moreover, the PIA will then facilitate the investment process for interested investors. This will include helping foreign investors navigate the process of launching a new local entity in the West Bank and Gaza, including guidance on the relevant processes and regulations.

**Component 4: Project management and implementation support (US$2.25 million)**

93. This component will strengthen the capacity of both PIA and MTIT, through the provision of management and implementation support to the PIA and MTIT in managing and overseeing project activities, including (i) staffing capacity and expertise to lend technical and implementation support; (ii) data collection, aggregation and periodic reporting on the project’s implementation progress; (iii) monitoring of key performance indicators; and (iv) overall project operating costs, audit costs and monitoring and compliance with ESCP.

94. This component will finance US$2.25 million in project management and capacity building. Of this amount, US$2.1 million will be dedicated to the project management costs of the PIA including operating, technical, and monitoring and evaluation (M&E) costs. The PIA will be responsible for the day-to-day administration of the overall project planning, coordination, and technical and fiduciary supervision. The remaining US$0.15 million will finance capacity building for the MTIT. Capacity building of MTIT staff is an essential element of TechStart and it will be instrumental to project sustainability and long-term success. The PIA will build the capacity of MTIT staff in project management, technical, administrative, and operational area of the project.

95. The PIA will also be responsible for establishing an international advisory committee and holding periodic meetings to help guide the design and implementation of the project. International experience has found that market linkages approaches are most successful when they involve international buyers.

96. The PIA will ensure coordination of the project’s communications strategy, covering all project components and stakeholders. A strong communication strategy will strengthen stakeholder engagement
and disseminate project learnings and results to support early knowledge sharing and capacity building more broadly.

D. Project Beneficiaries

97. Project beneficiaries are: (a) individuals—many of whom are female and (b) firms.

- Individuals are (a) managers and owners of businesses located in the West Bank and Gaza and (b) students, engineers, and IT professionals in the West Bank and Gaza—many of whom are young, recent graduates, and women

- Firms are IT services companies and business service providers legally registered in the West Bank and Gaza. IT services include software publishing; computer programming, consultancy, and related activities; and data processing, hosting, and related activities.
E. Results Chain

Figure 2. Theory of Change

- Growth of the number of women in IT services
- Growth of the pool of local talent and team leaders
- More practical training opportunities
- Improved management capabilities
- Improved HR capabilities to recruit market-relevant talent
- Greater access to IT and R&D infrastructure
- Increased international awareness and trust of WB&G IT service businesses

Legend:
- IT service buyers
- Palestinian IT service firms
- Palestinian labor
- Causal relationship between outcomes
- Project sub-components

- 1.1 Human capital improvement stipends
- 3.2 Promotion and facilitation of FDI in the Palestinian IT ecosystem
- 2.1 Seed grants to stimulate private investment in the IT ecosystem
- 2.2 Grants for shared R&D centers
- 2.3 Grants for IT business infrastructure
- 1.3 IT & gender needs assessment and engagement
- 1.2 Advisory services on managerial capabilities

Increase in economic opportunities in IT services in the West Bank & Gaza
F. Rationale for Bank Involvement and Role of Partners

98. **This project’s rationale for using public sector financing is based on the public sector’s role in addressing market and system failures that result in underinvestment from the private sector.** Figure 1 and section B under ‘Institutional and Sectoral Context’ describe a multitude of market and system failures that require public sector interventions.

99. **The World Bank’s role in TechStart is critical.** The World Bank enjoys a role as a trusted partner with the Palestinians while also maintaining a convening influence with regional counterparts and stakeholders. The World Bank will utilize its analytical work on the Palestinian labor market and digital ecosystem—combined with analysis of potential mechanisms to stimulate the economy while creating jobs—to design a viable project in a challenging FCV context. The World Bank has in recent years made work in FCV countries a strategic priority. The World Bank’s comparative advantage on innovative, private sector-focused interventions is borne out in this project through both technical and financial resources. Critically, while donor financing to the West Bank and Gaza continues to dwindle, the World Bank has significantly increased its funding envelope to Palestinians each of the last two years—making such projects possible. The World Bank will also add technical expertise and extensive experience in designing and implementing projects that involve SME upgrading and market linkages, innovation system and entrepreneurial ecosystems, and investment and export promotion. Finally, the World Bank will leverage its experience addressing gender gaps in the private sector, which the market may not address on its own.

100. **Investment Project Financing (IPF) will be able to improve the economic opportunities in IT services because of the coordinated mix of technical assistance and grants needed to tackle the relevant market and system failures.** Because Palestinian IT firms operate in a system of interacting factors, multiple simultaneous interventions are needed to affect outcomes. Technical assistance is required to improve the capabilities of firms and engage in activities on behalf of the entire sector, such as awareness-raising abroad. Grants are required to address market failures that lead to high private sector under-investments due to high externalities, lack of private appropriability of investments, and coordination failures. These include for example, investments in technological capabilities (through human capital and other means) and impure public goods such as shared R&D facilities and training institutions.

G. Lessons Learned and Reflected in the Project Design

101. **The project reflects lessons learned from the application of specific instruments in World Bank-funded projects and by other actors internationally as well as in the West Bank and Gaza.** These lessons cover firm subsidies, firm upgrading services, investment promotion, market linkages and export promotion, R&D hubs, gender, and skills. Lessons cover both the rationale and expected results of certain interventions, as well as intervention design features. While the project borrows from interventions that have been used in other countries, not all of them have long track records in FCV contexts, which has required some adjustments. More details on lessons learned can be found in annex 5.
III. IMPLEMENTATION ARRANGEMENTS

A. Institutional and Implementation Arrangements

102. The development of the Palestinian tech ecosystem needs a professional entity with extensive international and local expertise in private sector development, to tackle the binding constraints of the ecosystem, and strong credibility with the private sector. These constraints vary considerably including in local capabilities and opportunities or business linkages—specifically across the fragmented clusters of the Palestinian ecosystem and more advanced ecosystems nearby. In the West Bank and Gaza there is a lack of strong institutional capacity among public entities to manage complex private sector-focused programs. While the relevant public sector entity would typically be the implementing agency for similar operations, a private sector company has been competitively selected to be the implementing agency for the F4J Series of Projects and the IPSD. This arrangement aligns with the World Bank evaluation of a recent World Bank-funded private sector development operation—Government Services for Business Development (P126586)—where the project was closed before its planned end date, with an overall unsatisfactory performance. The lesson learned was to select a private sector company to bring on board teams of technical expertise needed for the implementation of similar innovative projects. Implementing through a private sector entity is more likely to achieve the desired result, given the technical expertise needed to deliver the project. The private sector implementation arrangement serves to mitigate against the greater risk assessed for any alternative public sector implementation option, including risk of capture of the financing that will be made available to the private sector.

103. For this project, the MTIT will enter into an Implementation Agreement (IA) with a uniquely qualified private sector firm, DAI, on sole source basis to act as the PIA. DAI has extensive experience in implementing private sector development projects in the West Bank and Gaza to (a) improve firm capabilities in the IT sector; (b) develop assessments of the IT services/outsourcing capabilities and opportunities for Palestinian companies to growth, including market analysis; (c) support business linkages in IT services by linking local companies with global markets; (d) manage incentives and grants for companies in the tech sector; and (e) support skills development incentives for on-the-job training. The implementation of the project by this uniquely qualified firm will facilitate faster implementation of the project to urgently address the increasing youth unemployment in the West Bank and Gaza due to the COVID-19 crisis. As a PIA, DAI will be prohibited from benefiting from any project components (grants, technical assistance, and worker stipends). The signing of the IA with DAI will be a condition for effectiveness.

B. Results Monitoring and Evaluation Arrangements

104. PDO-level indicators are selected to measure and showcase how the market creation/facilitation efforts resulting from project activities both at the supply and demand level resulted in international contracts for private investments and additional jobs by local firms in the IT services sector. The close monitoring of international contracts, their value, and jobs created at the firm level will allow for
correlation with project activities, identification of success factors, and highlighting support activities that require further tweaking.

105. **On citizen engagement, surveys will be developed across different project activities to measure beneficiary individuals’ feedback.** A simple application or survey will be developed to solicit beneficiary feedback at the conclusion of the intervention, which can complement other outcome-oriented indicators. The feedback, would amongst other aspects also measure beneficiary perceptions of the citizen engagement process. This data will be integrated periodically (and no less frequently than once per year after intervention completion) into World Bank implementation support missions and may also feed into decisions on contract renewals of service providers.

106. In this project, the PIA will develop and implement the M&E framework and build the capacity of its staff to undertake activities related to the M&E of project results. This will include support for setting up an M&E system, as well as relevant staff training on different aspects of M&E. The project monitoring reports will contain, at a minimum, summary data on overall performance against project targets, implementation challenges experienced, and feedback received from project beneficiaries.

**C. Sustainability**

107. The project is financially sustainable and its impact on job growth is expected to continue beyond the life of the project:

- The project will not provide funding to new public institutions or programs that will need to be financed beyond the life of the project.

- Training, HR development services, and R&D infrastructure services will be provided by private sector actors who will be selected on the basis of presenting financially sustainable business plans and on match-funding new commercial operations in the West Bank and Gaza. It is expected that these actors will not invest in new operations without expectations of returns on investment beyond the life of the project. However, the project is subject to a market risk that can lead to lower-than-expected returns from private sector investments.

- The IT firms supported through the project will gain the capabilities to secure further contracts without the need for workforce subsidies or technical assistance. The IT workforce supported by the project will acquire the skills and experience to meet the standards of international buyers and to lead and mentor new generations of Palestinian IT workers. The project’s time span will allow the workforce engaged in on-the-job-training to acquire the experience required to become team leaders by the end of the project, thus enabling the hiring of 5 to 10 additional fresh graduates for each senior engineer, under their supervision.

- The project has several positive feedback loops that are expected to lead to continued economic opportunities in the form of employment and new contracts in IT services. As
shown in figure 3, the additional jobs generated by the project for women are expected to have a demonstration effect on employers’ hiring of women and play a norm-setting role in future hiring and HR decisions. The additional contracts generated by the project are expected to provide training opportunities and technological capabilities that lead to further contracts and more jobs in the future. The additional contracts are expected to build a cohort of software developers and engineers with the three to five years of experience required to become team leaders and hire and supervise fresh graduates who would otherwise not be hirable for client work. The additional contracts are also expected to generate revenues for IT firms that they will be able to invest in new technology, R&D, and business infrastructure, which can in turn lead to improved technological capabilities, new contracts, and more jobs. Also, the additional international contracts and additional international buyers generated by the project are expected to have a demonstration effect in international markets that leads to an increase in the number of buyers, repeat contracts, and more jobs in the long run.
Figure 3. Positive Feedback Loops Leading to Project Sustainability

- Growth of the number of women in IT services
- More women employed in IT generates demonstration effects and norm-setting
- Growth of the pool of local talent and team leaders
- Contracts in new domains generate practical training
- More practical training opportunities
- Improved management capabilities
- Improved HR capabilities to recruit market-relevant talent
- Greater access to IT and R&D infrastructure
- New contracts lead to revenues that firms can invest in IT and R&D infrastructure
- Increased international awareness and trust of WB&G IT service businesses
- New contracts lead to revenues that firms can invest in IT and R&D infrastructure
- Growth in depth and scope of technological capabilities
- Increase in economic opportunities in IT services in the West Bank & Gaza
IV. PROJECT APPRAISAL SUMMARY

A. Technical, Economic and Financial Analysis (if applicable)

Development Impact of the Project

108. IT services hold the promise to play a role in diversifying the West Bank and Gaza’s economy, by creating jobs, increasing productivity, and strengthening the public sector. As detailed in the 2017 World Development Report, investing in digital technologies, including IT, can have considerable benefits for an economy outside of immediate jobs in the IT sector. The IT sector can have spillovers on increasing the use of digital technologies in other sectors by increasing working productivity and creating jobs. A strong local IT sector can also help governments become more capable and responsive through digital technologies. Jobs created for high-skilled workers in the IT sector can also have positive spillovers for labor in other sectors or in low and mid-skilled jobs. Moreover, economic models find that adding new skilled jobs in tradeable sectors generates significantly more jobs than less lesser skilled jobs in non-tradeable sectors. Evidence from cities across the United States and the United Kingdom find that high-tech sectors had positive job multipliers, increasing employment and wages for non-degree or low-skilled workers. The UK study also finds that mid-skilled workers benefit from higher wages.

109. The project is expected to support the Palestinian economy’s resilience to COVID-19 outbreak phases and to support its recovery phases. The project includes several measures to help IT service firms invest in training and upgrading during demand shocks, to work remotely during mandatory lockdowns, and to reposition themselves toward more resilient market segments. The project is also expected to support recovery efforts by helping the IT service sector reconstitute itself through business seed grants and advisory support. The project is also expected to help orient Palestinians toward the more resilient and sustainable jobs that rely on mid-level and advanced-level skills.

110. The project will directly benefit existing and new IT companies by providing high-quality HR, linkages to international buyers, access to financing, technical assistance in management skills, and basic common infrastructure. This will allow West Bank and Gaza IT services firms to increase demand for IT services from international buyers. Investments in the IT services sector and use of IT services in business can help improve jobs, productivity, and revenue.

111. The expected benefits of the project can be measured in terms of more jobs, higher paid jobs, and more sustainable jobs for the Palestinian workforce. Jobs will result from an increase in the number and size of contracts between Palestinian IT service firms and local and global markets. These contracts will be made possible by improving the capabilities of firms and of their workers, so that they meet the

standards of buyers, by increasing the pool of workers who meet those standards in the labor force, providing IT firms with the market services they need to succeed, creating channels to international markets, and stimulating FDI in the Palestinian IT sector. The IT jobs created are expected to be high-skilled jobs with high wages. These high-skilled jobs (see mid-level and advanced-level requirements in annex 4) are expected to be more sustainable than lower-skilled IT jobs that would be more vulnerable to international competition. Moreover, given the small size of the Palestinian labor market, it is unlikely that it would be able to compete in activities that employ lower-skilled IT workers but require large volumes of workers. Each job created is expected to have a multiplier effect in the Palestinian job market. Considering the specific challenges faced in Gaza (including isolation and lacking infrastructure), the project will give extra support to Gazan firms that are able to participate in hosting interns and trainees. This will help to counteract the pronounced disadvantage faced by Gazan IT graduates to find high-quality work in the IT services sector. The project will also provide matching grants to Gazan firms—so those firms can obtain the minimum IT business infrastructure necessary to operate effectively in the sector.

112. Regarding the gender dimension, benefits of the project will be measured by the proportion of women that access IT services jobs, by the female employment solutions that are adopted by IT services firms, and by the proportion of management and leadership positions in IT services that are filled by women. To support a higher proportion of women accessing these jobs, the project will give a greater stipend allotment (or lower co-financing requirement for grants) to firms that are hosting female trainees and interns. To encourage female employment solutions in the IT services sector, this project will begin by assessing the constraints on women in the sector. Following this diagnosis, the project will work with firms in the IT services sector to identify, pilot, and scale female employment solutions (for example, a flexible work policy). These solutions will help improve female employment outcomes, including with regard to women reaching management and leadership positions.

*Rationale for Intervention*

113. The project rationale for intervention is based on factors related to the market failures, system failures, and policy failures detailed in section I.B as well as the externalities and spillovers that are associated with investments in skills and in innovation. Figure 2 of section III.C provides a visual depiction of how the various project activities map to the factors presented in figure 1 of section I.B. Annex 2 provides a rationale for the project’s intervention as well as for the intervention’s design in each individual subcomponent of the project.

114. The project design has been weighed against other options that seek to address the development of the IT services sector, system, and public sector failures and leverages lessons learned provided in section II.F. Each subcomponent design was benchmarked with alternatives on the basis of their efficient use of project resources, implementation risk, relevance to project objectives, and additionality.

115. The project’s financial sustainability is discussed in section III.C.

*Value Added of the World Bank*
116. The project design reflects the value added of the World Bank’s technical inputs based on three types of private sector development projects, namely SME upgrading and market linkages projects, innovation system and entrepreneurial ecosystem projects, and investment and export promotion projects:

- **Firm capabilities upgrading and market linkages projects.** The project accounts for firms’ knowledge gaps of their upgrading needs and of how to address those needs as well as the roles of skills in upgrading capabilities (for example, firm upgrading in Component 1). The project takes demand from existing international buyers and their standards as the starting point around which to upgrade the capabilities of local firms (for example, Component 1). International buyers are expected to contribute financially to upgrading the ecosystem (for example, the R&D hub in Component 2). Examples of World Bank-funded SME upgrading and market linkages projects include the Mexico Information Technology Development Project (P106589), the Kenya Industry and Entrepreneurship Project (P161317), the Kazakhstan SME Competitiveness Project (P147705), the Gabon Investment Promotion & Competitiveness Project (P129267), and the Zambia Agribusiness And Trade Project (P156492).

- **Innovation system and entrepreneurial ecosystem projects.** The project’s theory of change realizes that new value is created by firms in the market with the support of a system (or ecosystem) of complementary actors, some of which are subsidized by the public sector due to the high externalities associated with innovation (for example, training programs in Component 1 and the R&D hub in Component 2), institutional and normative factors (for example, gender in Component 1), and access to finance (for example, grants for new IT exporters in Component 2). Examples of World Bank-funded innovation systems projects include Strengthening the Science, Technology and Innovation System in Peru project (P156250); the Georgia National Innovation Ecosystem (GENIE) project (P152441); the Kazakhstan Technology Commercialization Project (P090695); the Egypt Improving Economic Opportunities for Women and Youth Entrepreneurs Project (P162835); the Jordan Innovative Startups Fund Project (P161905); the Lebanon Supporting Innovation in SMEs Project (P127306); the Morocco Financing Innovative Startups and SME Project (P150928); and the Tunisia Innovative Startups and SMEs Project (P167380).

- **Investment and export promotion projects.** The project accounts for the fact that there are particularly high barriers to trade in the West Bank and Gaza, many of which cannot be easily addressed through policy reforms in the short term. The project accounts for the role of FDI and trade at increasing competition in a market as well as generating knowledge spillovers that contribute to technology diffusion and innovation. The project acknowledges coordination and information failures in a purely private sector-led approach to investment promotion and market linkages (for example, increasing international demand and investments in Component 3). Examples of World Bank-funded investment and export promotion projects include the Ethiopia Competitiveness and Job Creation Project (P143302), the Serbia Competitiveness and Jobs Project (P152104), the Tunisia Third Export Development Project (P132381), the Armenia Trade Promotion and Quality Infrastructure
B. Fiduciary

(i) Financial Management

117. TechStart’s overall risk from a financial management (FM) perspective is Substantial.

118. The PIA will handle all FM and disbursement aspects of TechStart and report to the project counterpart at the MTIT as well as the World Bank periodically. The FM arrangements for TechStart will ensure that funds are used for the purposes intended. The project counterpart at the MTIT has limited experience with World Bank Guidelines and capacity building will be provided. A US dollar Designated Account (DA) will be opened by the MOF at a commercial bank in the West Bank and managed by the PIA. Withdrawal Applications (WAs) will be endorsed by the MOF and funds will be directly deposited into the DA managed by the PIA.

119. The FM arrangements at the PIA will be assessed after the agreement is signed with the PIA. Within the PIA, there will be dedicated individuals to follow up on all fiduciary aspects of the project. The project counterpart at the MTIT will keep accounting records and ensure that TechStart’s activities are recorded in the PA accounting system (Bisan). This will be done throughout the project life of TechStart. This can be done on a batch basis with day-to-day accounting undertaken by the PIA. The system will have a separate cost center that will be used for TechStart accounts.

120. The PIA will produce unaudited interim financial reports (IFRs) semiannually and submit these to the project counterpart at the MTIT, who will endorse and submit them to the World Bank for monitoring TechStart implementation. The IFRs will be submitted to the World Bank within 45 days after the end of each period. The PIA will also be responsible for providing annual audited project financial statements, which will also be submitted to the project counterpart at the MTIT, who will endorse and submit them to the World 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 World Bank.

121. To ensure sound management of TechStart resources, the PIA will sign an IA with the MTIT, supported by a POM. The POM will have details covering all administrative, financial and accounting, budgetary, and HR procedures relevant to TechStart. The POM can be modified throughout the life of the project.

(ii) Procurement

122. Procurement of goods, non-consulting services, and consultants’ services under the project will be carried out by the PIA in accordance with the World Bank’s Procurement Regulations for IPF Borrowers, dated July 2016 and revised November 2017 and August 2018, following well-established private sector HR procurement arrangements or commercial practices, acceptable to the World Bank. The ‘Guidelines
123. The MTIT will enter into an IA with a uniquely qualified private sector firm, DAI, to act as the PIA. DAI is already implementing the F4J and IPSD projects. The signing of the IA will be a condition for effectiveness. The PIA will be responsible for project procurement, FM, disbursement, and M&E in accordance with the signed IA and following the procedures to be outlined in the finalized POM.

124. The PIA will hold overall responsibility for procurement and will act as the World Bank’s counterpart for all procurement aspects of TechStart. The PIA team will include a qualified procurement specialist to manage the execution of project procurement activities. In addition to its responsibility for carrying out procurement for various TechStart activities, the PIA will oversee procurement to be carried out by recipients of Improving the IT Services Ecosystem Matching Grants in accordance with the respective Matching Grant Agreement. A procurement capacity and risk assessment of DAI was carried out for the IPSD and will be updated for TechStart. It concluded that DAI’s procurement systems and procedures are consistent with the World Bank’s core procurement principles and may be used for IPSD procurement. It is expected that the same procurement arrangements will apply for TechStart. The applicable procedures, including the oversight mechanism of procurement decisions by matching grant recipients, will be documented in the finalized POM. The adoption of the finalized POM will be a condition for effectiveness.

125. Envisaged procurement activities include selecting consultants for capacity-building support, technical assistance, advisory services, and need assessment studies as well as procuring essential facilities, equipment, and software. In addition, the PIA will be responsible for overseeing procurement under the subgrants for improving the IT services ecosystem and also selecting consultants for improving market access and increasing demand and investments for the IT services.

126. The preparation of the Project Procurement Strategy for Development (PPSD) and the draft Procurement Plan for the first 18 months of the project will be deferred until after the IA is signed. According to the World Bank’s Procurement Regulations, the PIA will hold the responsibility to prepare the PPSD, based on a market analysis, which aims to determine the most appropriate procurement arrangements for the project. The PPSD will conclude with a Procurement Plan. The PIA will carry out procurement in accordance with the Procurement Plan, approved by the World Bank. The PIA will use the World Bank’s Systematic Tracking of Exchanges in Procurement (STEP) system, to prepare, clear, and update their Procurement Plans and to document procurement transactions.

127. The overall procurement risk rating for TechStart is initially assessed as Moderate. Detailed procurement arrangements are described in Annex 1.

C. Legal Operational Policies
D. Environmental and Social

128. The project has limited environmental impacts and the environmental risk has been rated Moderate. The relevant Environmental and Social Standards (ESS) are ESS1 on Assessment and Management of Environmental and Social Risks and Impacts, ESS2 on Labor and Working Conditions, ESS3 on Resource Efficiency and Pollution Prevention and Management, ESS4 on Community Health and Safety, and ESS10 on Stakeholder Engagement and Information Disclosure. The project Subcomponents 2.2 and 2.3 are envisaged to finance IT business infrastructure for project beneficiaries and R&D IT equipment for an R&D hub. This equipment is expected to include ergonomics and furniture, hardware IT infrastructure, and network infrastructure. The environmental impacts associated with the installation of these equipment are the aspects of solid waste management, management of e-waste at end of life of equipment, and occupational health and safety. It is expected that some beneficiaries of this project will seek support for installation of solar panels from an ongoing World Bank-financed operation in the power sector (ESPIP) and the measures for mitigating the impacts of these interventions are identified in the Environmental and Social Management Framework (ESMF) of ESPIP.

129. The project has limited social impacts and the social risk has been rated Moderate. The social risks can be summarized as follows: (a) risks related to social exclusion in its various forms that would need to be mitigated through ensuring that project benefits, such as access to grants and job opportunities, can be accessed and optimized for the most vulnerable and youth, including those from poor communities and women; (b) risk of exposure of youth, including vulnerable youth and women to sexual harassment or exploitation, or poor working conditions, indirectly, through project financial support for on-the-job training programs and salaries for new employees; and (c) risks related to labor and working conditions for project workers of the PIA. The project will not result in any risks related to involuntary resettlement. Private sector firms seeking grants to establish new enterprises or subsidiaries will need to demonstrate adherence to willing-buyer willing-seller criteria to qualify for the matching grants. A gender-based violence (GBV) assessment was conducted and the risk is considered Low.

130. In accordance with the ESSs, the necessary instruments have been prepared. In accordance with ESS1, an ESMF was prepared and includes the requirements for managing solid waste, e-waste, and occupational health and safety. In accordance with ESS2, a Labor Management Procedure (LMP) was prepared which identifies the types of labor, measures to mitigate for any GBV issues at the workplace, and a Grievance Redress Mechanism (GRM) for project workers. In accordance with ESS3, resource efficiency and climate-change benefits have been analyzed as described in the following paragraph. Measures for management of waste and pollution prevention is described in the ESMF. Stakeholder engagement activities took place as part of the preparation of the project and included preliminary meetings with different stakeholders during the screening/scoping for, individual meetings and round
table meetings with different entities during the preparation phase. The main consultations took place both in West Bank and Gaza during September 23-25, 2019 and November 26-28, 2019, and included discussions of project components and activities, targeted groups, scoping of potential and environmental risks, institutional and implementation arrangements. In accordance with ESS10, the Environmental and Social Commitment Plan (ESCP) with specific deliverables, timeframe and responsibilities, and a Stakeholder Engagement Plan (SEP) were prepared. The ESCP, ESMF, SEP and LMP were disclosed\(^{48}\) in-country by the client on March 12, 2020. The ESCP, ESRS and SEP were disclosed on the World Bank’s external website on March 24, 2020, while the ESMF and LMP were disclosed on the World Bank’s external website on May 21, 2020.

131. **The project supports commitments in the overall World Bank Climate Action Plan and the World Bank MENA Climate Action Plan (2016–2020).** The West Bank and Gaza is vulnerable to climate change. Projected impacts include increase in temperatures, a decrease in annual precipitation, and an increase in drought conditions and heat waves. The design of this project incorporates both adaptation and mitigation measures—specifically, the use of energy efficient IT infrastructure which are outlined in greater detail in annex 2. Water, land, and energy—key natural resources in the West Bank and Gaza—are limited and/or in acute shortage. Therefore, much-needed economic growth cannot be derived from the use of natural resources in this location. Climate change will further exacerbate vulnerability of population in the West Bank and Gaza. According to forecasts, population in the West Bank and Gaza could double by 2050, whereas precipitation could dwindle by as much as 40 percent. Shifting the economy from exploiting natural resources to developing and using human capital (labor), will be a crucial climate change adaptation measure. This project aims to generate climate change adaptation co-benefits from the full amount of project financing. Criteria for the thematic grants will include climate mitigation and adaptation measures. Note that since this operation is not financed through IBRD or IDA, it will not receive support (no co-benefits assessment either) in achieving climate co-benefit targets from the World Bank’s Climate Change Advisory & Operations Unit.

132. The MTIT, does not have in-house environmental and social management capacity. Therefore, the ministry will contract a private sector firm as a PIA to implement the project on behalf of the MTIT. The PIA will have a Safety, Health, and Environment Department or environmental and social experts. Therefore, it is part of the commitments in the Environmental and Social Commitment Plan that part of the expertise of the PIA in the bidding documents is to demonstrate capacity in environmental and social management. The beneficiaries, who will benefit from the new ICT equipment, are not also likely to have specific capacity apart from the general awareness of environmental issues, and the PIA is expected to provide the overall guidance and capacity building.

V. **GRIEVANCE REDRESS SERVICES**

133. Communities and individuals who believe that they are adversely affected by a World Bank supported project may submit complaints to existing project-level grievance redress mechanisms or the WB’s Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed.

\(^{48}\) The ESCP, ESMF, SEP and LMP were disclosed in-country by the client in Arabic on May 21, 2020.
in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the World Bank’s independent Inspection Panel which determines whether harm occurred, or could occur, as a result of World Bank 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 Grievance Redress Service (GRS), please visit http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

134. A project-level GRM will be established for the project to ensure that the project’s affected people can file their grievances and seek resolution with no intimidation or coerciveness. The GRM is located at the PIA. During consultation for updating the SEP, information on GBV will be provided to all involved stakeholders. The project-level GRM will include multiple channels to initiate a complaint. It will include specific procedures for GBV, including confidential reporting and ethical documentation of GBV cases.

VI. KEY RISKS

135. The overall risk rating for TechStart is High. TechStart is designed to help operationalize the World Bank Group FY18–FY21 Assistance Strategy, which makes private sector-focused interventions a priority. All risk categories, apart from environmental and social, are identified as High or Substantial.

136. Political and governance risk is High. Restrictions on movement, access, and trade remain as substantial impediments to project implementation in the Palestinian territories, particularly in Gaza. To mitigate these risks, the World Bank monitors situation. The World Bank also partners with local communities, municipalities, nongovernmental organizations, utilities, and educational institutions which could provide additional modes of implementation to ensure program and project continuity.

137. Macroeconomic risk is High. On the fiscal side, the liquidity crunch that resulted from the clearance revenues standoff, which extended over more than six months in 2019, has had an impact on consumption and investment patterns and negatively affected economic activity resulting in very low growth in 2019. Even though the fiscal stress has gradually eased given that the PA has started accepting these revenue transfers again, the risks remain. A possible further reduction in the level of donor assistance poses significant risks to the sustainability of the macroeconomic and fiscal framework.

138. Sector strategies and policies risk is Substantial. World Bank interventions focused on the private sector in an FCV context are riskier. Within the private sector, TechStart would support Palestinian IT services—part of the ICT sector—a sector that is less predictable compared to other sectors—but also less dependent on infrastructure and import/export. While there are restrictions on supporting infrastructure in the sector, TechStart is being proposed at a time when some of these are being reduced, including barriers on the 3G network—which has recently entered the West Bank. Moreover, given global competition in the IT service market and the fast pace of technological innovation, the sector carries a market risk which could affect the outcomes of the project.
139. **Technical design risk of the project is Substantial.** The design of the project, in terms of the firm upgrading, demand stimulation, and stakeholder collaboration activities, includes a variety of unknowns and untested interventions in the West Bank and Gaza context, making the overall technical design risk high before mitigation measures. Component 2 (Improving the IT services ecosystem) includes several grants. These grants might come with particular risks, including potential for: (a) high management and bureaucratic costs, (b) selection bias, (c) crowding out private investment (not creating additionality), and (d) lack of governance. Across the TechStart design—especially in Component 3 (Improving market access and increasing demand and investments)—the project incentivizes international buyers to do business with Palestinian firms, provides options to de-risk partnerships to cooperate across the conflict. With the World Bank Group’s strategy moving more toward regional cooperation and supporting a level playing field in the West Bank and Gaza, a high-risk and high-reward intervention is warranted. The project will draw on a wealth of innovative project experiences and technical expertise from within the World Bank Group—as well as from global best practices more broadly. In some activities such as subcomponent 1.3 (IT and gender needs assessment and engagement), the project will employ pilot initiatives to test the design before it is scaled to full potential. Regarding risks related to the use of grants, mitigation measures will include: (a) conducting marketing and outreach to avoid catering to firms with business models relying on grant, (b) simplifying the grant schemes for beneficiaries while still monitoring effectiveness, (c) maintaining flexibility to adapt the grant schemes during the life of the project—while maintaining fair application procedures and creating incentives to improve beneficiary performance, and (d) procuring a PIA that has a strong track record in conducting due diligence of grant beneficiaries. Specific governance arrangements around beneficiaries of project grants will be detailed in the POM.

140. **Institutional capacity for implementation and sustainability is High.** In the few prior private sector-focused interventions in the West Bank and Gaza, implementation has been challenging, as there is a lack of strong institutional capacity among key public entities to manage complex private sector-focused programs. This could pose a high risk for TechStart. This high risk—and the subsequent mitigation measures—are detailed in section III (Implementation Arrangements). Following due diligence and analysis of potential implementation models—combined with lessons learned from F4J and IPSD—it was determined that TechStart utilizes a sole source modality with the private firm that is implementing F4J and IPSD. Still, the risk remains high since TechStart necessitates one private sector company to implement a wide array of activities, which could be challenging—to find a single private contractor with such a wide expertise. One mitigation measure of this risk is to ensure that the PIA subcontracts certain activities to consultants of relevant expertise. The World Bank will also provide extensive support to ensure the deployment of global knowledge and cutting-edge technical expertise within the local context. To improve public sector oversight and the longer-term ability of public entities in the West Bank and Gaza to implement such projects, TechStart will allocate US$150,000 under Component 4 to build the capacity of the MTIT.

141. **Fiduciary risk is considered Substantial.** The risk rating for FM is Substantial due to MTIT’s lack of experience with World Bank-financed projects. Adequate FM arrangements will be put in place for the project including development of an FM Manual, recruitment of project FM staff, and upgrading of

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accounting systems as necessary. Risks identified will be mitigated through project-specific measures. Funds will flow to a DA opened specifically for this project. Hiring a PIA with experience managing similar projects and with familiarity in the operating environment will help reduce fiduciary risks.

142. **Stakeholders risk is High.** The stakeholders of TechStart are many from the IT sector, including both Palestinian and foreign partners. Stakeholder risks driven by operating and business environment uncertainties are being mitigated through strategic project design and through the PA’s demand and ownership of the project. Moreover, in addition to the Prime Minister’s Office, MTIT, and MOF, other important stakeholders such as PITA, PIPA, PalTrade, the Higher Council for Innovation and Excellence, the Ministry of Entrepreneurship and Empowerment, and the Ministry of National Economy will be part of the Steering Committee for TechStart. The function of the Steering Committee will be to advise and make recommendations with respect to new ways for the public and private sector to improve the economic opportunities for individuals and firms in the IT services sector in the West Bank and Gaza, with a focus on TechStart project areas of interventions, as well as support reforms needed to ensure a successful project outcome. Mitigation will also include systematic monitoring and related reporting and stakeholder coordination. The PIA will be responsible to communicate regularly and report on stakeholder issues.
### RESULTS FRAMEWORK AND MONITORING

#### Results Framework

**COUNTRY:** West Bank and Gaza  
Technology for Youth and Jobs

#### Project Development Objectives(s)

To increase economic opportunities for IT service firms in the West Bank and Gaza

#### Project Development Objective Indicators

<table>
<thead>
<tr>
<th>Indicator Name</th>
<th>PBC</th>
<th>Baseline</th>
<th>End Target</th>
</tr>
</thead>
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<tr>
<td>To increase economic opportunities for IT service firms in the West Bank and Gaza</td>
<td></td>
<td>0.00</td>
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<tr>
<td>Value of new contracts signed between local IT service firms benefiting from project activities and international buyers (Amount(USD))</td>
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<tr>
<td>International buyers signing new contracts with local IT service firms benefiting from project activities (Number)</td>
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### Intermediate Results Indicators by Components

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<th>Indicator Name</th>
<th>PBC</th>
<th>Baseline</th>
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</tr>
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<tr>
<td>Additional private investment made by firms benefiting from project activities towards technology and skill upgrading (Amount(USD))</td>
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### Improving IT services capabilities

<table>
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<tr>
<th>Indicator</th>
<th>PBC</th>
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<tbody>
<tr>
<td>Individuals benefiting from project training activities (Number)</td>
<td>0.00</td>
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<td>750.00</td>
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<td>Out of which are female (Number)</td>
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<td>Individuals benefiting from project training activities who reported employment (Number)</td>
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<td>675.00</td>
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<tr>
<td>Out of which are female (Number)</td>
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<td>340.00</td>
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<tr>
<td>Individuals benefiting from project activities reporting satisfied or very satisfied with support received (Percentage)</td>
<td>0.00</td>
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<td>75.00</td>
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### Improving the IT services ecosystem

<table>
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<th>Indicator</th>
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<th>Baseline</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Local firms benefiting from project activities (Number)</td>
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<td>Local firms benefiting from project activities who are reporting</td>
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<td>Indicator Name</td>
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<td>End Target</td>
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<tr>
<td>-------------------------------------------------------------------------------</td>
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<tr>
<td>new contracts (Number)</td>
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<td>Additional high-skilled IT services jobs created by local firms benefiting from project activities (Number)</td>
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<td>Out of which are for females (Number)</td>
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<td>Local firms benefiting from project activities that adopted female employment solutions (Number)</td>
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<td>New firms established by project seed grants (Number)</td>
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<td>Out of which are new female-led firms (Number)</td>
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<td><strong>Improving market access, and increasing demand and investments</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Firms reporting satisfied or very satisfied with support received (Percentage)</td>
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<tr>
<td>Foreign direct investment generated by the project (Amount(USD))</td>
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<tr>
<td>Indicator Name</td>
<td>Definition/Description</td>
<td>Frequency</td>
<td>Datasource</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------------</td>
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<tr>
<td>Value of new contracts signed between local IT service firms benefiting from project activities and international buyers</td>
<td>Value of new contracts signed between local IT service firms (those firms benefiting from project activities) and international buyers</td>
<td>Quarterly</td>
<td>Local IT service firms benefiting from project activities</td>
</tr>
<tr>
<td>International buyers signing new contracts with local IT service firms benefiting from project activities</td>
<td>International buyers signing new contracts with local IT service firms (those firms benefiting from project activities)</td>
<td>Quarterly</td>
<td>Local IT service firms benefiting from project activities</td>
</tr>
<tr>
<td>Additional private investment made by firms benefiting from project activities towards technology and skill upgrading</td>
<td>The additional private investment is the financial resources invested by firms that are (i) receiving grants for technology and skills upgrading and / or (ii) benefiting from on-the-job training stipends offered by the project. Private sector investment is in further highly skilled labor hiring and managerial capabilities enhancement to be able to get further opportunities from international outsourcing companies. Also</td>
<td>Quarterly</td>
<td>Firms receiving project grants and benefiting from workforce stipends</td>
</tr>
</tbody>
</table>
this will capture private sector investments in R&D hubs to serve businesses needs required to satisfy international outsourcing companies' requirements.

<table>
<thead>
<tr>
<th>Indicator Name</th>
<th>Definition/Description</th>
<th>Frequency</th>
<th>Datasource</th>
<th>Methodology for Data Collection</th>
<th>Responsibility for Data Collection</th>
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<td>Individuals benefiting from project training activities</td>
<td>Individuals here are IT graduates who are benefiting from the project's training activities</td>
<td>Quarterly</td>
<td>PIA</td>
<td>PIA data collection mechanism</td>
<td>PIA</td>
</tr>
<tr>
<td>Out of which are female</td>
<td>This captures the female portion of individuals (IT graduates) who are benefiting from the project's</td>
<td>Quarterly</td>
<td>PIA</td>
<td>PIA data collection mechanism</td>
<td>PIA</td>
</tr>
<tr>
<td>Individuals benefiting from project training activities who reported employment</td>
<td>training activities</td>
<td>Monitoring of this indicator should be clearly articulated in the service provision agreement between the PIA and the service providers—and sequentially in the agreements between the service providers and individuals supported by project activities.</td>
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<td>--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
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<td></td>
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<tr>
<td>Out of which are female</td>
<td>This measures the female portion of individuals (IT graduates) benefiting from the project's training activities who are reporting employment which could be freelancing or could be in a local or international IT service firm.</td>
<td>Monitoring of this indicator should be clearly articulated in the service provision agreement between the PIA and the service providers and individuals supported by project activities.</td>
<td></td>
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<tr>
<td>Individuals benefiting from project activities reporting satisfied or very satisfied with support received</td>
<td>freelancing or could be in a local or international IT service firm.</td>
<td>providers—and sequentially in the agreements between the service providers and individuals supported by project activities.</td>
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<tr>
<td>Local firms benefiting from project activities</td>
<td>The individuals are IT graduates who benefited from project activities and reported a rating of satisfied or very satisfied with project support received--note that this only takes into account those individuals who completed the beneficiary feedback survey.</td>
<td>Quarterly Individual project beneficiaries Survey PIA</td>
<td></td>
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<tr>
<td>Local firms benefiting from project activities</td>
<td>The local firms are benefiting from project activities including (i) skills</td>
<td>Quarterly PIA PIA data collection mechanism PIA</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local firms benefiting from project activities who are reporting new contracts</td>
<td>upgrading support, (ii) managerial support, (iii) R&amp;D centers, (iv) IT business infrastructure, and / or (v) matching-making activities (under Component 3).</td>
<td>Quarterly</td>
<td>Firms benefiting from project activities that are reporting new contracts</td>
<td>Monitoring of this indicator should be clearly articulated in the service provision agreement between the PIA and the service providers—and sequentially in the agreements between the service providers and benefiting firms.</td>
<td>PIA</td>
</tr>
<tr>
<td>Additional high-skilled IT services jobs created by local firms benefiting from project activities</td>
<td>Local firms are those benefiting from (i) skills upgrading support, (ii) managerial support, (iii) R&amp;D centers, (iv) IT business infrastructure, and / or (v) match-making activities (under Component 3)—that are reporting new contracts with local or international buyers.</td>
<td>Quarterly</td>
<td>Local IT service firms</td>
<td>Monitoring of this indicator should be clearly articulated in</td>
<td>PIA</td>
</tr>
<tr>
<td>Created by local firms that are benefiting from project activities. Examples of these jobs include AI, data science, robotics, cloud computing, software development.</td>
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<tr>
<td>the service provision agreement between the PIA and the service providers--and sequentially in the agreements between the service providers and benefiting firms.</td>
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</tr>
</tbody>
</table>

**Out of which are for females**

This measures the female portion of additional full-time high-skilled IT services jobs created by local firms that are benefiting from project activities. Examples of these jobs include AI, data science, robotics, cloud computing, software development.

**Quarterly**

Local IT service firms

| Monitoring of this indicator should be clearly articulated in the service provision agreement between the PIA and the service providers--and sequentially in the agreements between the service providers and benefiting firms. |

PIA
| Local firms benefiting from project activities that adopted female employment solutions | This indicator includes the total number of female employment solutions adopted across all firms benefiting from project activities. Female employment solutions might include childcare options, flexible work, transportation support or other possible mechanisms that would make positions more female-friendly. Local firms here are those firms who are benefiting from project activities including (i) skills upgrading support, (ii) managerial support, (iii) R&D centers, (iv) IT business infrastructure, and / or (v) match-making activities (under Component 3). | Quarterly | Local firms benefiting from project activities | Monitoring of this indicator should be clearly articulated in the service provision agreement between the PIA and the service providers--and sequentially in the agreements between the service providers and benefiting firms. | PIA |
| New firms established by project seed grants | New firms could include IT firms, HR firms, R&D centers, training providers, or new branches of existing firms that are established by individuals who received project seed grants. | Quarterly | Individuals receiving seed grants | Surveys | PIA |
| Out of which are new female-led firms | These are the female-led (50% or more female ownership of the firm) portion of new firms that are established by individuals who received project seed grants. New firms could include IT firms, HR firms, R&D centers, training providers, or new branches of existing firms. | Quarterly | Females receiving seed grants | Surveys | PIA |
| Firms reporting satisfied or very satisfied with support received | This measures the percentage of local firms (those firms who have benefited from project support). | Quarterly | Firms benefiting from project support who | Surveys | PIA |
| Foreign direct investment generated by the project | Foreign direct investment (FDI) includes any asset owned by a foreign investor, acquired to manage a company. It includes equity capital, reinvested earnings, and intra-company loans or debt transactions (short-or long-term borrowing and | Quarterly | The foreign investor through the PIA | PIA data collection mechanism -- for results reporting, only actual “paid” investments are counted, not investor interest or announced investment figures, where the connection | PIA |
lending of funds between parent and affiliate enterprises). In addition, FDI may comprise non-equity forms of investment which give investors an effective voice in the management. These include, inter alia, subcontracting, management contracts, turnkey arrangements, franchising, licensing and product-sharing. Both FDI flows generated by new investors, and FDI from existing investors (reinvestment) are included. Note that the investments of Palestinian ID holders residing abroad would be counted as FDI.

to the activities of the project must be proven.
1. The development of the Palestinian tech ecosystem needs a professional entity with extensive international and local expertise in private sector development to tackle the binding constraints of the ecosystem, and strong credibility with the private sector. These constraints vary considerably including in local capabilities and opportunities, or business linkages—specifically across the fragmented clusters of the Palestinian ecosystem and more advanced ecosystems nearby.

2. PIA responsibility. As a condition for project effectiveness, the MTIT will complete the selection of the PIA with the signing of the IA between these two parties with capacity, functions, staffing, and resources satisfactory to the World Bank. The PIA shall be responsible for the day-to-day administration of overall planning, coordination, technical, fiduciary (that is, procurement and FM), M&E, safeguards, reporting, and communication of the activities under TechStart, all in accordance with the provisions of the Grant Agreement (GA), the IA, and the POM. Detailed responsibilities of the PIA will be included under the GA and the POM.

3. Institutional arrangements. The recipient of the project grant—the Palestine Liberation Organization—shall, through the PA, cause the MTIT to maintain overall responsibility for TechStart. A Steering Committee, comprising officials from the Prime Minister’s Office, MTIT, MOF, and other relevant ministries and agencies, will be established to provide strategic guidance to the PIA on implementation.

Financial Management

Implementing Entity

4. Fiduciary activities, including procurement and FM, will be handled by the PIA. The PIA will have an IA with the MTIT and will manage the day-to-day FM aspects of the project. The PIA reports to the project counterpart at the MTIT, who will endorse the reports and submit them to the World Bank. The PIA and the project counterpart at the MTIT will ensure that FM under the project is carried out in accordance with World Bank procedures to ensure that the funds are used for the intended purpose.

Risk Analysis

Fiduciary Risks

5. The country-level fiduciary risk level in the PA system is rated High before mitigation. This is due to weak budget execution and the accumulation of arrears which affects service delivery. There are considerable delays in the issuance of public sector financial statements, as well as delayed
implementation of the 2014 Public Procurement Law. The risk is mitigated through by having a dedicated PIA which will have good capacity as well as close implementation support by the World Bank and regular audits. The project level risk is rated Substantial and there will be mitigating measures in place to reduce the risk. The overall FM risk is rated Substantial and the procurement risk is Moderate. The overall fiduciary risk is rated Substantial.

Project Risks

6. The overall project risk from an FM perspective is Substantial. The FM arrangements are designed to ensure that funds are used for the purpose intended and that timely information is produced for project management and PA oversight, and to comply with the World Bank’s fiduciary requirements. The risks are due to the following factors:

   (a) The operating environment may affect physical and financial progress. This could also affect implementation support and verification of activities.

   (b) The variety of components and the number of stakeholders that will be involved in the project may affect project implementation.

   (c) There will also be some work in Gaza which carries an additional risk due to the operating environment as well as difficulty in providing close implementation support due to the restrictions on access and movement to Gaza.

   (d) The MTIT’s lack of FM capacity to properly manage the project’s FM responsibilities.

7. The following measures are to be taken to mitigate the FM-related risks:

   (a) An experienced PIA will be hired which will be responsible for all FM aspects of the project.

   (b) The PIA will have the sole responsibility to disburse on behalf of the project to suppliers, contractors, and consultants.

   (c) An independent external auditor will be hired to perform annual external financial audit in accordance to terms of reference acceptable to the World Bank.

   (d) A separate DA will be opened in the name of the project and under the control of the PIA.

   (e) Financial transactions will be maintained separately in the accounting software through a separate cost center for the project.

   (f) Complete supporting documentation for each activity, including signed contracts, invoices, and other related supporting documents will be maintained by the PIA in an orderly manner, readily available for audit.
(g) Training and capacity-building activities will be provided by the World Bank on FM and disbursement guidelines to all stakeholders as necessary.

Financial Management System

8. **Flow of funds and banking arrangements.** World Bank financing will be in the form of a grant to be disbursed through a project-specific DA opened by the MOF and operated by the PIA. The PIA will be assessed, and an IA will be signed between the MTIT and the PIA. The MOF will open one DA denominated in US dollars into which replenishments from World Bank resources will be transferred and will be used in financing the project’s components according to the approved budget.

9. WAs submitted to the World Bank will be prepared by the PIA and signed by the authorized signatures at the MTIT and the PIA before submission to the World Bank.

10. The PIA will vest the sole responsibility to disburse on behalf of the project to suppliers, contractors, and consultants. Additionally, the project counterpart at the MTIT and the PIA will maintain a monthly reconciliation statement between their records and the World Bank’s records per the World Bank’s 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 project documents.

11. DA bank account records will be reconciled with bank statements on a monthly basis by the PIA. A copy of the 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), will be documented in the financial section of the POM. Figure 1.1 describes the funds flow for the project:
12. **Information systems.** A computerized FM system will be in place and operational at the PIA before commencement of the project. The FM system will be capable of producing timely, relevant, and reliable financial information that will enable the project’s management to plan, implement, monitor, and appraise overall progress toward achievement of its objectives. A new cost center will be opened in Bisan, the PA accounting system for the project that will be used by the project counterpart at the MTIT to periodically record all transactions as required by the PA system of accounting.

13. **Financial section of the POM.** The PIA will prepare a POM covering all administrative, financial and accounting, budgetary, and HR procedures relevant to the additional activities to be financed under the project. The POM will describe the payment procedures, including controls and oversight arrangements. A POM acceptable to the World Bank will be updated for the project and submitted once the PIA is hired.

14. **Staffing.** The project’s activities including FM will be handled by the PIA. The PIA will keep all accounting records and ensure all transactions are recorded. The project counterpart at the MTIT will also assign an employee at the MTIT to record all the project’s activities 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.

15. **Financial reporting and monitoring.** The PIA will have overall responsibility for FM 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 statements, periodic statements of expenditure (SOEs), withdrawal schedules, quarterly IFRs, and annual financial statements; and (c) ensuring that the project’s FM arrangements are acceptable to the PA and the World Bank.
16. The PIA will produce semiannual and annual reports as outlined in the following paragraphs and submit these to the project counterpart at the MTIT. The project counterpart at the MTIT will be responsible for all reports during the interim period. The MTIT will then endorse and send them to the World Bank for monitoring project implementation.

17. Semiannual unaudited IFRs (submitted within 45 days after period end) will include the following:

   (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 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.

18. Annual project financial statements (submitted within six months after year end) will include the following:

   (a) A statement of sources and uses of funds (by grant category/activity showing World Bank and counterpart funds separately)

   (b) A statement of cash position for the project’s funds from all sources

   (c) Statements reconciling the balances on the various bank accounts (including the 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.

19. Accounting policies and procedures. The project’s 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 dollars.

20. External audits. The GA will require the submission of annual audited project financial statements within six months after year end. The project’s financial statements will be annually audited by a qualified independent auditor acceptable to the World Bank, in accordance with internationally accepted auditing standards and terms of reference acceptable to the World Bank.
21. The external auditors will be expected to express an opinion on the audited project’s financial statements, on the eligible use of the World 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 World Bank procedures.

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

23. The external auditor will be required to hire a technical auditor for any works of the project undertaken by anyone (if needed). The technical auditor will be required to track progress on a monthly basis and compare it to financial progress.

24. **Implementation support.** World Bank FM implementation support activities will include, but not be limited to, review of SOEs, review of quarterly IFRs, and review of annual audited financial statements and Management Letters, as well as timely follow-up on issues raised by the external auditor. Implementation support in the fields will be undertaken on a periodic basis during the life of the project. World Bank implementation support missions will consist of visits to the PIA and the project counterpart at the MTIT, and other stakeholders as necessary. Relevant documentation will be made readily available to World Bank implementation support missions.

**Disbursements**

25. Disbursements from the World Bank will use the four traditional methods: Reimbursement, Advance, Direct Payment, and Special Commitment. Reimbursement and DA advance replenishment will follow the transaction-based method using SOE for documenting paid eligible expenditures. Reimbursement, Direct Payments, and Special Commitment Issuance Applications can be accepted if the amount is above the ‘minimum application size’ as specified in the Disbursement Letter.

26. The Trust Fund Grant will have a separate DA. 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 will be records evidencing eligible expenditures (copies of receipts and suppliers’ invoices).

27. **DA.** The DA will be held in US dollars. The ceiling of the DA and the financial institution at which the DA is opened is specified in the Disbursement Letter.

28. **Planning and budgeting.** A disbursement plan will be prepared as will a financial budget for the life of the project (broken down by year and by quarter). The 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 the project activities, schedules (including the Procurement Plan),
and expenditures on monthly and quarterly project activities. The annual budget will be sent to the World Bank at least two months before the beginning of the project’s fiscal year for review.

Procurement

29. Procurement of goods, non-consulting services, and consultants’ services under the project will be carried out by the PIA in accordance with the World Bank’s Procurement Regulations for IPF Borrowers, dated July 2016 and revised November 2017 and August 2018, following well-established private sector procurement arrangements or commercial practices, acceptable to the World Bank. The ‘Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD loans and IDA Credits and Grants’ dated October 2006 and revised in January 2011 and as of July 1, 2016, shall apply to the project.

30. The MTIT will enter into an IA with a uniquely qualified private sector firm, DAI to act as the PIA for the project. DAI is already implementing F4J and IPSD projects. The signing of the IA will be a condition for effectiveness. The PIA will be responsible for project procurement, FM, disbursement, and M&E in accordance with the signed IA and will follow the procedures to be outlined in the finalized POM.

31. The PIA will be responsible for the implementation of project procurement in accordance with the IA and following the procedures outlined in the approved POM. Procurement responsibilities would include selecting consultants for capacity-building support, technical assistance, advisory services, and need assessment studies as well as procuring essential facilities, equipment, and software. In addition, the PIA will be responsible for managing the subgrants for improving the IT services ecosystem and also selecting consultants to improve market access and increase demand and investments for the IT services.

32. For Component 1, there will be no procurement for the human capital improvement subcomponent. TechStart will finance individual stipends under this subcomponent for students in the last years of their studies, fresh graduates, local IT staff who need to gain knowledge and practical skills, and international staff who will work with the local IT firms to build the technical and managerial capacity of their workforce. The basic salary of the international staff will be covered from the IT firms, while the stipend will cover only the additional cost of hiring them (for example, relocation costs, house allowance, health insurance, and so on). In addition, the PIA will contract consultants to deliver technical assistance to local IT firms under Subcomponent 1.2 and to increase the access of women to IT firms under Subcomponent 1.3.

33. For Component 2, procurement for subprojects under the matching grant facility to improving the IT services ecosystem, may not be defined up-front due to their demand-driven nature. 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 POM, under PIA supervision.

34. For Component 3, the PIA will contract consultants and service providers for awareness raising activities and international market linkages and for promotion and facilitation of FDI in the Palestinian IT
ecosystem. Moreover, the project will include capacity-building activities for the MTIT staff under Component 4.

35. A procurement capacity and risk assessment of the PIA was carried out for the IPSD and will be updated for TechStart. It concluded that the PIA procurement systems and procedures are consistent with the World Bank’s core procurement principles and may be used for IPSD procurement. It is expected that the same procurement arrangements will apply for TechStart.

36. The key procurement risks identified in the assessment include the following:

(a) MTIT procurement and contract management experience in implementing similar projects with innovative nature and newly developed instruments targeting the IT private sector is limited and the MTIT is unable to meet project procurement requirements.

(b) Lack of proper coordination and interaction between the PIA and various stakeholders may cause procurement and project implementation delays.

(c) Delays in the implementation of procurement activities to be carried out by grant recipients due to their limited procurement capacities.

(d) Lack of competition in few specialized consultants’ services to be provided under the project.

37. The following key measures are included in the project design to mitigate the above procurement risks:

(a) The MTIT will enter into an IA with a uniquely qualified private sector firm, DAI to act as the PIA for the project. A qualified procurement specialist within the PIA team will be responsible for handling the procurement under the project.

(b) A detailed POM shall be prepared outlining, among other issues, a clear project management mechanism and procurement procedures applicable for various project components and activities. The adoption of the finalized POM will be a condition for effectiveness.

(c) Procurement will be centralized, to the extent practical, with the PIA. For procurement activities to be carried out by grant recipients, the PIA will be responsible for providing necessary oversight in accordance with a procurement review and control mechanism to be outlined in the finalized POM.

(d) Open competitive bidding will be the default approach for the procurement activities, along with expanding the competition to include international specialized firms for the specialized consultants’ services that may lack competition in the local market.
(e) The World Bank will maintain close follow-up and quality control of procurement/contract management matters during project implementation support to ensure the efficiency of procurement decisions.

(f) External audits will include a review of procurement decisions (whether made by the PIA or matching grant recipients) as well as technical audits to ensure compliance of the delivered goods and services to the signed contracts.

38. The overall procurement risk rating for TechStart is assessed as Moderate. Most of the contracts under the project will be subject to the World Bank’s post review, however all terms of references will be reviewed by the World Bank’s technical experts. In addition to prior review, the World Bank will carry out three implementation support missions a year, including one ex post procurement review that would cover a sample of the contracts awarded during the review period. The project procurement risk rating shall be updated during the project implementation. The World Bank prior review thresholds for Moderate risk-rated projects are outlined in table 1.1:

<table>
<thead>
<tr>
<th>Type of Procurement</th>
<th>Prior Review Threshold (US$, thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods, information technology, and non-consulting services</td>
<td>4,000</td>
</tr>
<tr>
<td>Consultants: firms</td>
<td>2,000</td>
</tr>
<tr>
<td>Consultant: individual</td>
<td>400</td>
</tr>
</tbody>
</table>

39. The preparation of the PPSD and the draft Procurement Plan for the first 18 months of the project will be deferred until after the IA is signed. According to the World Bank’s Procurement Regulations, The PIA will hold the responsibly to prepare the PPSD, based on a market analysis, which aims to determine the most appropriate procurement arrangements for the project. The PPSD will conclude with a Procurement Plan. The PIA will carry out procurement in accordance with the Procurement Plan, approved by the World Bank. The PIA will use the World Bank’s STEP system, to prepare, clear, and update their Procurement Plans and to document procurement transactions.

**Implementation Support Plan and Resource Requirements**

40. The implementation support plan describes how the World Bank will support the implementation of the risk mitigation measures and provide the technical advice necessary to help the client achieve the PDO. It has been developed based on the nature of the project and its risk profile. The World will work closely with the PIA and key stakeholders to ensure project success, including through World Bank three implementation support visits on average per year to the West Bank and Gaza, as well as ongoing dialogue. A midterm review (MTR) mission will be fielded two and a half years after the project has become effective. Should structural implementation challenges emerge before the MTR, the resolution would require in-depth analysis and restructuring then the MTR will take place accordingly.
41. The World Bank will monitor the progress of project implementation and achievement of results through formal and informal reporting channels. Formal reporting channels include Implementation Status and Results Reports, consultant deliverables, and results monitoring reports supplied by the PIA. Informal channels include interaction with direct beneficiaries of the project, reports from local media, and other assessments such as country economic analysis. The World Bank will continue a close dialogue with the PIA and the PA to ensure that it meets client needs as circumstances evolve.

42. Project procurement and FM missions will be undertaken as part of periodic fiduciary support conducted concurrently across operations in the West Bank and Gaza of all World Bank-funded projects. An exception to the principle of autonomous supervision by the fiduciary specialists would be the MTR, implementation support missions, and preparation of the Implementation Completion and Results Report.

43. The World Bank will review the Results Framework submitted quarterly by the PIA during the implementation support missions or as desk reviews. The team leaders will discuss the progress and deviations with the PIA to identify any areas where additional help from the World Bank is needed. The PIA and the World Bank will also use results data to build awareness of project results among key beneficiaries and counterparts. Beneficiary feedback will also feed into regular monitoring.

44. Tables 3.1 and 3.2 detail the key areas of focus of the implementation support activities for the first 24 months of the project’s implementation. These have been determined based on discussions with the client and an understanding of the priority activities to be implemented during the first two years of the project. Future updates will be based on progress on project activities, timing of major new activities or large procurement packages, and the expertise required to address any issues that arise, among other things.

<table>
<thead>
<tr>
<th>Time</th>
<th>Focus</th>
<th>Skills Needed</th>
<th>Resource Estimate</th>
<th>Partner Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>First six months</td>
<td>Review of Request for Proposal and documents for PIA selection, including evaluation criteria and selection report; Onboarding of the PIA Review the POM, Grants Manual, Working Plans, and Procurement Plan</td>
<td>Project task management consultants and World Bank staff specialists in IT services ecosystem development • Procurement specialist • FM specialist • Safeguards specialists</td>
<td>US$100,000</td>
<td>—</td>
</tr>
<tr>
<td>Time</td>
<td>Focus</td>
<td>Skills Needed</td>
<td>Resource Estimate</td>
<td>Partner Role</td>
</tr>
<tr>
<td>---------------</td>
<td>------------------------------------</td>
<td>-------------------------------------------------------------------------------</td>
<td>------------------</td>
<td>--------------</td>
</tr>
<tr>
<td>6–24 months</td>
<td>Support implementation of activities</td>
<td>Project task management consultants and World Bank staff specialists in IT services ecosystem development • Procurement specialist • FM specialist • Safeguards specialists • Legal</td>
<td>US$300,000</td>
<td>—</td>
</tr>
<tr>
<td>Other</td>
<td>General supervision</td>
<td>Project task management FM specialist Procurement specialist • Safeguards specialists • Legal</td>
<td>US$100,000</td>
<td>—</td>
</tr>
</tbody>
</table>

**Table 3.2. Skill Mix Require, Staff Weeks, and Number of Trips During the Life of the Project**

<table>
<thead>
<tr>
<th>Skills Needed</th>
<th>Number of Staff Weeks</th>
<th>Number of Trips</th>
</tr>
</thead>
<tbody>
<tr>
<td>Task team leaders</td>
<td>50</td>
<td>10</td>
</tr>
<tr>
<td>Procurement specialist</td>
<td>20</td>
<td>0</td>
</tr>
<tr>
<td>FM specialist</td>
<td>20</td>
<td>0</td>
</tr>
<tr>
<td>Counsel</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Operations support</td>
<td>25</td>
<td>0</td>
</tr>
<tr>
<td>Safeguards specialists</td>
<td>20</td>
<td>5</td>
</tr>
<tr>
<td>M&amp;E specialist</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>SME development specialists</td>
<td>20</td>
<td>6</td>
</tr>
<tr>
<td>FDI specialists</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>IT ecosystem specialists</td>
<td>20</td>
<td>5</td>
</tr>
<tr>
<td>Education/digital skills specialists</td>
<td>20</td>
<td>5</td>
</tr>
<tr>
<td>IT services/outsourcing specialists</td>
<td>20</td>
<td>5</td>
</tr>
</tbody>
</table>
ANNEX 2: Detailed Project Description

COUNTRY: West Bank and Gaza

Technology for Youth and Jobs

1. The project aims to shift the dynamic equilibrium of the Palestinian IT sector toward one of continuous upgrading of firm capabilities and employment growth. It will do so by strengthening the supply of firm capabilities, increasing demand from international buyers and investors, and stimulating the absorption of high-tech knowledge in the ecosystem.

2. The project consists of four components tackling the supply side, the enabling ecosystem, and the demand side of IT services. Component 1 will focus on the supply side, seeking to improve the capabilities of IT service firms by supporting the technological and managerial upgrading of firms, including the upskilling of workers and supporting the role of women in the sector. Component 2 will focus on improving the ecosystem of IT service firms in the West Bank and Gaza. This will be achieved by investing in (a) R&D facilities which can provide access to technology and services to the entire sector, (b) IT and office infrastructure for businesses who face the most market distortions from trade barriers, and (c) new business service providers. Component 3 will focus on increasing global demand and investments in the IT services market. This will be achieved through activities that promote the Palestinian market abroad to increase investment and export opportunities and broker deals between international firms and Palestinian IT service firms. Component 4 will provide project management and monitoring (see table 1). The project components will address the factors affecting the dynamics of the ecosystem (see figures 1 and 2 and table 2).

3. The targeted financial and technical assistance (for example, stipends, grants, and advisory services) provided to firms and individuals in the project will be allocated on a rolling basis following minimum eligibility criteria which will be published online. Detailed eligibility criteria will be provided in the POM. The PIA will conduct reviews of the applications as well as conduct relevant due diligence on the beneficiaries (companies or individuals).

4. To reflect lessons learned from World Bank matching grant projects that it is not possible to predict the optimal matching share of a grant, the size and matching share of financial support will be adjusted during the project to identify the optimum level that minimizes subsidies while generating additionalities, and to also take into context market feedback and changes in the country context. However, the share will not fall below the ranges proposed in this Project Appraisal Document.

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5. TechStart has been designed with the possibility to scale up each of its interventions to address unexpected market dynamics, unexpected challenges from conflicted-affected parts of the West Bank and Gaza and for further technological upgrading into yet higher value-added activities. The program’s systemic nature will—with multiple complementary interventions that can interact with one another—will also induce outcomes that are not possible to predict, and which will generate lessons with which to design improved or complementary interventions.

Component 1: Improving IT Service Capabilities

6. **Overview.** This first component will focus on addressing the skills gaps among IT service providers in the West Bank and Gaza. These firms are not able to scale their services or gain new customers due to limitations in the individual skills of their workforce, as well as on the capacities of the firms as organizational units. Firms wishing to engage in new technologies in the West Bank and Gaza will need to acquire new talent and upskill existing talent. Because this decision needs to be taken before a firm has a contract with a customer, it will entail a first-mover risk on service offerings and on the firm’s ability to acquire the required competencies. Technology upgrading also entails taking a risk on investing in human capital which is not fully appropriable because workers can move to other firms once they have been trained. Moreover, global evidence consistently shows that there is a negative correlation between firm size and investment in workforce skills. Smaller firms tend to invest significantly less in training than larger firms.51

**Subcomponent 1.1: Human capital improvement stipends (US$4million)**

45. **Overview of subcomponent.** This subcomponent will help upgrade the skills of the Palestinian IT service workforce through provision of stipends for: (a) part time and full time internships for students or recent graduates; (b) on-the-job training for recently hired IT professionals; (c) international workers with relevant technical and managerial skills to cover additional costs of hiring international workers to be employed in senior and/or leadership roles in West Bank and Gaza; and (d) costs of enrollment into online training and/or certification programs for staff of existing IT service firms whose employment has been negatively affected by COVID-19 crisis.

7. **Rationale for workforce stipends.** The project provides stipend funding directly to the workforce, and not to firms, to ensure flow of fund transparency52 and ensure that both the IT service firms and their buyers in the case of on-the-job training stipends have ‘skin in the game’ by covering complementary investments through their own private resources. Because the firms are not financially compensated for providing on-the-job-training, their investments in workforce training are driven by incentives to engage

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52 Prior experience with firm grants for workforce training in the West Bank and Gaza revealed challenges in ensuring that funds were only utilized for worker remuneration.
in follow-up contracts. The project offers non-reimbursable grants as opposed to loans because there is no global experience showing that high-skilled workers are willing to pay—even if in the future—for the privilege of working, even if their employment includes on-the-job training. Moreover, requesting individuals to work without compensation can have a negative impact on gender balance in the workforce. Finally, the practice of working without compensation is illegal in many countries, where a minimum wage is required even for interns and apprentices. The use of a third-party impact bond to fund the stipends has also been considered but introduces unnecessary redundancy and costs in the project because the market incentives of the IT service firms and their buyers (who seek follow-up contracts) and the employees (who seek follow-up employment) are already sufficient to address issues of input and outcome additionality.

8. **Intervention.** This subcomponent will make use of stipends, which consist of financial remuneration to individuals on a time-bound basis while they are gaining skills or imparting skills to others. The proposals for support under this subcomponent will be submitted by firms, but the project will disburse stipend funding directly to the workforce. This funding will be available through four funding windows: internships stipends, on-the-job training stipends, expatriate stipends, and COVID-19 online skills upgrade stipend window.

9. **Internship stipends window.** These stipends will be available for part-time internships, to students in the last years of their university studies, and for full-time internships, to university graduates who need to gain knowledge and practical skills in mid-level or advanced-level value added IT services (see annex 4). The supported internships are expected to lead to full-time jobs once the internship period is over. The internships stipends will be open for IT services companies or high-tech53 and high-tech-enabled startups that need to skill up the workforce to scale up their business. Stipends for part-time internships will cover students working for a local company, on local or international client-related work. These stipends can cover transportation and allowance. Part-time internship stipends will have a fixed amount and will be valid for a maximum of two years. Stipends for full-time internships will be available for graduates to work as interns in a local company, on local or international client-related work. The full-time internships stipends can cover transportation and allowance. Full-time internships stipends will have a fixed amount and will be valid for a maximum of six months.

- **Measures for additionality and impact.** The companies will need to contribute 20 percent to 50 percent to the full-time internships stipends and conduct monthly evaluation of the interns. The co-financing percentage will depend on the financial situation of the firm, growth potential, the size of the company, and business proposals, as detailed in the POM. Smaller firms and firms that are located in Gaza will benefit from lower co-financing requirements. For women interns, the company will need to contribute only 20 percent to 30 percent to the full-time internship stipends.

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53 High-tech startups are based on extremely risky applications of technology to a novel area, which usually requires an R&D phase, several rounds of prototyping, and then slow adoption in an uncertain market. A high-tech-enabled startup uses existing technologies in creative ways to conceive and realize new products and services.
• **Selection criteria.** The beneficiary firms will be required to be legally registered in the West Bank and Gaza. They will need to present a work plan for the intern and make a business case for how they will contribute to the firm’s business/R&D activities. The firms will need to issue an appointment letter for the period of full-time internship.

10. **On-the-job training stipends window.** These stipends help cover the remuneration of new IT staff who need to gain knowledge and practical skills in mid-level or advanced-level value added IT services (see annex 4) that cannot be found easily in the Palestinian labor force but are essential to being hired for new IT services projects with international buyers. To be eligible for these stipends, individuals will need to have a signed employment contract (short term if necessary) with a Palestinian IT company, which will engage them on a project for which they have a project agreement or soft contract with an international buyer. For its workforce to be eligible the Palestinian IT company will need to demonstrate in its application that its trainees will receive practical training and mentoring during the project from the company’s international buyer and the trainees have been approved by that buyer. Stipends will have a fixed amount and will be valid for a maximum of one year, depending on the technology and project complexity.

• **Measures for additionality and impact.** Local beneficiary firms will be required to cover all overhead costs including office space, technology facilities, and management. They will not be paid by their buyers for services rendered by the workforce on the stipends program. The beneficiary firms will be required to sign employment contracts with individuals receiving stipends, and their buyers will be required to transfer the technical knowledge and necessary mentoring to on-the-job training beneficiaries.

• **Selection criteria.** The recipient firm will be required to be legally registered in the West Bank and Gaza and generate commercial revenues from IT services. It will need to provide letters from international buyers stating that they have a soft contract or letter of intent for a contract, that the international buyer will not financially compensate the local firms for workers who will receive stipends, and that the international buyer will provide the training and mentoring and ensure knowledge transfer to the local workforce. The firm will need to present a business case for the workforce stipend justified by the prospects of a follow-up contract with the buyer or other possible clients. The firm will also need to provide details of the human, technology, facilities, and other resources that it will contribute to the on-the-job-training and ensure that they are adequate.

11. **Expatriate stipends window.** These stipends will support international staff, with senior technological expertise or leadership experience, to work with Palestinian IT services firms to build the technical and managerial capacity of their workforce. Expatriate stipends will help cover the additional costs of hiring individuals with international skillsets that cannot be found in the West Bank and Gaza. These stipends will help local companies cover expatriate compensation packages. Expatriates will be required to have technological expertise or leadership roles during the terms of their contracts to maximize high-tech knowledge transfer and build teams of juniors. Expatriates will need to be either
integrated in revenue-generating client projects or be involved in strategic roles to upgrade the capabilities of the enterprise (for example, as temporary Chief Technology Officer or support to improve internal systems and processes). The size of the stipend will be commensurate with the skills and experience of the individual and valid for a maximum of two years. The expatriate contracts will include KPIs and periodic evaluation.

- **Measures for additionality and impact.** The beneficiary firm will be required to cover the salary and performance-based bonuses, while the stipend will cover the expatriate benefits (for example, relocation costs, house allowance, health insurance, schooling, and hardship allowance).

- **Selection criteria.** The recipient firm will be required to be legally registered in the West Bank and Gaza and generate commercial revenues from IT services. It will need to present a diagnosis of gaps and a credible business plan for the utilization of the expatriate staff for workforce capability upgrading to address those gaps. The business plan will need to present the salary and other expenses that the firm will invest in this upgrading process to make a case for value for money.

12. **COVID-19 online skills upgrade stipend window.** This window will provide grants to individuals to cover their online training and certification costs. These stipends will be provided to IT services company staff who can no longer be assigned to client projects or to internal management functions due to losses from client revenues. To be eligible for the stipends, individuals will need to enroll into online training and/or certification which is relevant to their careers.

- **Measures for additionality and impact.** The online training and certification of companies’ staff will help the companies either become more globally competitive when they emerge from the crisis, become more resilient during the crisis, or reposition themselves to new market segments that are resilient to the crisis.

- **Selection criteria.** To benefit from the stipends, IT service firms will need to submit an application which will include information on benefiting staff, their training and certification plans, and how it relates to their business needs, demonstrate that the company has been losing client revenue, and demonstrate that the company was in good financial health and growing before the crisis.

**Subcomponent 1.2: Advisory Services on Managerial Capabilities (US$1 million)**

13. **Overview of subcomponent.** This subcomponent will design and provide a program of technical assistance activities to eligible Palestinian IT service firms to improve (a) their managerial and organizational capabilities; (b) implementation of business resiliency measures and business relaunch measures to respond to COVID-19 crisis; and (c) strategy and leadership skills, including outreach and awareness raising for the program.
14. **COVID-19 economic impact response measure.** The subcomponent will also include specialized technical assistance to help firms implement business resiliency measures and business relaunch measures to cope with the COVID-19 crisis. Resiliency measures will be targeted to existing IT services firms and help them both survive the existing crisis situation (such as lockdowns or revenue drops). Business relaunch support will be provided in the form of coaching targeted to IT service businesses who have lost most of their staff and become micro-businesses and to new IT service micro-businesses that have been launched by staff of IT firms who have lost their jobs due to the crisis. Firms receiving business relaunch support will have a streamlined application process and undergo a different process that will be detailed in the POM.

15. **Rationale for provision of technical assistance for managerial capabilities.** The project offers technical assistance for managerial upgrading rather than financial instruments because international experience shows that SMEs are usually not aware of their own capability gaps or of the returns on investing in addressing those gaps and are therefore not likely to invest in targeting the right gaps on their own. Moreover, many firms face challenges in differentiating the quality of consultants in the market. Independent private sector consultants, on their end, have conflicts of interest in advising firms on which services they need and in maximizing their revenues by selling services to the firms. Finally, because there is limited demand in the market of managerial upgrading services for companies, the supply of service providers is limited.

16. **Intervention.** This subcomponent will, through a private service provider, offer technical assistance to the management teams of Palestinian IT service firms on management, organizational development, strategy, and leadership and where needed and relevant, energy efficiency, through a structured program that will borrow from the practices of industrial extension programs in other countries (for example, long-running programs in the United States). The program will help firms adopt general good managerial practices as well as practices that are specifically required by existing and potential clients. The requirements of existing and potential clients will be informed and continuously updated through findings from the market linkage activities in Subcomponent 3.1 which will conduct research on and outreach to international buyers. The project will run this program on a rolling basis. The technical assistance service provider will rely on international and local business advisers, who will offer general support and act as the principal contact points between the firms and the program.

17. Throughout the project, the PIA will conduct outreach efforts to encourage local IT service companies to participate in the program. The project will use behavioral change model whereby, in addition to regular communication channels, local firms gain awareness of their needs through light-touch events such as free workshops, benchmarking exercises with local and international peers, and rapid assessments that provide firms with rapid feedback on immediate improvements that firms can make. This will ensure that before local firms receive more intensive technical assistance, they understand their gaps and needs, and commit appropriate levels of internal resources to address them during the technical assistance.
18. Firms that are interested in receiving more formal support from the program will be provided with the opportunity to submit a short application containing information on the firm, business goals, and time and resource commitments that will be dedicated to firm capability upgrading. Firms will need to meet minimum eligibility criteria to be selected. These criteria will be specified in the POM. The criteria will aim to ensure that the firms are viable entities with existing revenues from IT services and have the capacity and willingness to absorb the support of the program. A business adviser contracted by the PIA will then administer a diagnostic which will identify key constraints and opportunities to address and KPIs to meet at the end of the program. The business advisers will then work with the local firm to develop an improvement plan to meet the KPIs through specific milestones.

19. Following their improvement plans, firms will sign performance contracts to formalize milestones tied to continued support of the program. Dedicated business advisers will coach companies through a managerial upgrading process. Business advisers will invite specialized international consultants in areas that require more in-depth sectoral or functional knowledge. Progress toward each milestone will be assessed by the business adviser and additional advisers. Firms that are able to meet their intermediate milestones will be eligible for continued support from the program.

20. Baseline performance data on participating firms will be collected as part of the diagnostic service and changes will be tracked by business advisers over the life of the engagement to measure progress or changes against the baseline. After the end of the engagement, data will be collected through surveys.

21. Specific and different needs of women and men will be integrated into all advisory support provided to firms. The project will leverage existing methodologies (for example, adaptations of the Economic Dividends for Gender Equality certification program for small firms or gender boards.)

22. Measures for additionality and impact. Gaps and KPIs of beneficiary firms will be determined through business diagnostics. Beneficiary firms will also be asked to sign contracts outlining the internal resources they will invest in during the upgrading program and agreeing to final KPIs and intermediate milestones. Beneficiary firms will need to meet periodic performance milestones to continue receiving assistance from the project.

23. Selection criteria. Beneficiary firms will be legally registered in the West Bank and Gaza, generate commercial revenues from IT services, and have growth potential. The firms’ contracts with the project will include internal resources dedicated to upgrading that meet the requirements of the performance improvement KPIs, as determined by the business adviser.

Subcomponent 1.3: IT and gender needs assessment and engagement (US$0.5million)

24. Overview of subcomponent. This subcomponent will conduct assessment of gender issues in Palestinian IT services sector, identifying policy reforms to promote women’s participation in IT sector, developing and piloting proposed interventions, and conduct impact assessment of the pilots.
25. **Rationale for a gender assessment, followed by design and implementation of gender gap solutions.** There is limited data and knowledge on the employment landscape of IT service companies in the West Bank and Gaza and of the different constraints and opportunities faced by men and women. Therefore, it is unlikely that predefined interventions that do not target gaps identified in prior diagnostic would be effective. Moreover, given the complexity and context-specificity of changing behaviors around gender, sufficient evidence of what interventions would have the largest and most sustainable impact in the West Bank and Gaza’s IT services sector is not available. Finally, firms in the IT services sector have limited capabilities to define, design, and implement solutions around gender on their own.

26. **Intervention.** As a first step, a gender assessment will (a) shed light on the employment landscape of the IT service companies; (b) create a better understanding of the expectations faced by hiring managers when it comes to recruitment, retention, and promotion of their staff; and (c) identify the constraints and opportunities faced by male and female employees working in the sector as well as their aspirations for accessing and participating in leadership positions. It will do this through a mixed methods approach that leverages existing HR data and explores both qualitative and quantitative data collection strategies, such as phone surveys, face-to-face key stakeholder interviews, and focus group discussions. To ensure equal participation of women and men, sessions will be held at a time that is appropriate, with potential childcare and transportation provided if needed.

27. As a second step, following the assessment work, the project will conduct a series of workshops with employers that address the issues raised and discuss options of interventions that could address gaps that especially disadvantage female employees, such as better transportation means, flexible work arrangements, childcare in the workplace, and female mentorship support, among others, that may be potential solutions.

28. As a third step, the project will issue a call for proposals for IT service firms wishing to receive technical assistance from the PIA on the implementation of gender solutions. Firms will be selected on the basis of the value for money of their proposal. The PIA will provide beneficiary firms with technical assistance to design, prototype, and pilot solutions. This process will draw from design thinking and behavioral insight processes and expertise to mitigate risks. The project will also cover the costs of prototyping and small pilots to provide incentives for companies to participate without prior knowledge on impact. An impact assessment will be conducted on the pilots.

29. As a fourth step, firms will be able to submit proposals for scaling solutions that have been assessed as successful through piloting. The PIA will provide selected firms with technical assistance to scale the solution.

30. **Measures for additionality and impact.** Firms will be requested to commit resources toward the design, piloting, or implementation of the gender solutions. Solutions that are not validated through prototyping will not be piloted, and solutions that are not validated through piloting will not be

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mainstreamed. The PIA will engage a gender specialist for its gender-related activities to ensure that it is building on international experience. The gender specialist will work closely with the MTIT on policy reforms and implementation of solutions to increase the employment of women in IT sector.

31. **Selection criteria.** Beneficiary firms will be legally registered in the West Bank and Gaza and generate commercial revenues from IT services. Firms will be selected on the basis of the credibility and value for money of their proposals.

**Subcomponent 1.4: COVID-19 employment support subsidies (US$1 million)**

32. **Overview of subcomponent.** This subcomponent will provide employment subsidies to staff of eligible Palestinian IT service firms receiving support under Subcomponent 1.1, COVID-19 online skills upgrade window, or Subcomponent 1.2, Covid-19 economic impact response measure, whose employment has been negatively affected by COVID-19 crisis.

33. **Intervention.** The employment subsidies will be provided to existing IT services company staff who risk to lose their jobs due the impact of Covid-19 crisis. To be eligible for the employment subsidies, staff will need to enroll into the online training and/or certification under Subcomponent 1.1, COVID-19 online skills upgrade window. This subcomponent will also provide employment subsidies to staff dedicated to the implementation of business upgrading processes as part of the performance improvement plans of businesses benefiting from the advisory services under Subcomponent 1.2.

34. **Measures for additionality and impact.** The employment subsidies will be conditional on the firm keeping the employment contract of the staff. Employment subsidies will be provided to the individuals directly, not to the companies. This will ensure transparency on the allocation of funding and not to other internal firm-level activities which have smaller economic externalities. To benefit from the employment subsidies, businesses will need to demonstrate that the staff they nominate are underutilized as a result of client revenue lost due to the COVID-19 crisis and that the business is no longer able to keep them. All employment subsidy activities shall target the inclusion of women through communication and outreach.

35. **Selection criteria.** To benefit from the employment subsidies, IT service firms will need to submit an application which will include information on benefiting staff (including their training and certification plans or the activities assigned to a staff under business upgrading processes), demonstrate that the company has been losing client revenue, and demonstrate that the company was in good financial health and growing before the crisis. Employment subsidy amounts and limits will be specified in the POM. Firms benefiting from employment subsidies will be subject to random audits to ensure that the conditions of the grant are being met.

**Component 2: Improving the IT services ecosystem**

**Subcomponent 2.1: Seed Grants to Stimulate Private Investments in the IT Services Ecosystem (US$2.25 million)**
36. **Overview of subcomponent.** This subcomponent will provide matching grants to strengthen competitiveness of the Palestinian IT sector through financing start-up costs for establishment in West Bank and Gaza of: (a) new business operations in the IT sector; (b) re-establishing business operations in the IT sector by firms adversely impacted by COVID-19; (c) commercial IT training providers; and (d) commercial human resources IT service providers. The grants will be provided through three windows to entrepreneurs or companies that meet the eligibility criteria.

*Grant Window 1: New IT services operations*

37. **Rationale for financing the cost of establishing new IT services firms.** The seed grant’s objective will be to de-risk, encourage, and enable the launch of new IT services companies in the West Bank and Gaza IT services market. New IT services firms will bring technological competencies, industry expertise, and customer networks and will hence be able to broaden the scope of IT services offered in the markets.

38. **New IT services operations intervention.** The seed funding will support the costs required to establish new business operations in the West Bank or Gaza as detailed in a credible business model submitted by the applicant. These costs can include developing a viable business plan, working capital, software, product development and testing, market testing, intellectual property protection, sales and business development, organizational development, and capacity building. Given the long lead time and high costs of establishing companies in the West Bank and Gaza, the project will consider registration costs by company founders who are established in the West Bank and Gaza as eligible co-financing. No works will be financed through the grants. The seed funding will also support the establishment of branches/subsidiaries of West Bank companies in Gaza and of Gaza companies in the West Bank. Any other private sector funding, including from banks, will be counted as co-financing. Co-financing matching shares and total amounts will be specified in the POM and are expected to be adjusted throughout the project to reflect market feedback.

39. **Measures for additionality and impact.** The seed funding is expected to be provided in the range of a 50/50 co-funding basis. Women-led businesses and individuals that have not yet formed a company will be eligible for a greater share of co-financing in the range of a 70/30 match. Criteria for women leadership will be established in the POM. Seed grants are expected to be offered up to US$150,000.

40. **Selection criteria.** New subsidiaries or entrepreneurs will need to demonstrate a track record of at least three years of cumulative experience providing the relevant services on a commercial basis to local or international clients. Existing businesses who are based in the West Bank and Gaza will need to be legally registered and demonstrate they are an IT service company with growth potential from the West Bank investing in new branches in Gaza, or vice versa.

41. **COVID-19 economic impact response measure.** Grant window 1 will include a separate streamlined application process for IT service firms that have become micro-businesses as a result of downsizing due to the COVID-19 crisis and to staff of IT firms who have lost their jobs due to the COVID-19 crisis and are in the process of launching, or have launched, new IT service firms. This measure is
expected to help the IT service sector reposition itself toward more resilient market segments during the crisis and relaunch the sector once the crisis has ended.

Grant Window 2: New training service providers

42. **Rationale for financing the cost of establishing new training services providers.** Because there are no existing commercial IT training providers catering to graduates and private sector companies in the West Bank and Gaza, the seed grant’s objective will be to de-risk, encourage, and enable the establishment of new providers. This subcomponent will support rapid upskilling and certification in specialized technical skills, practical training, soft skills, and creative thinking for IT graduates and in areas of high demand. Service providers could include, for example, bootcamp providers and training institutions established internationally that already have a validated business model and a global track record of getting trainees employed by local and international companies.

43. **New training service providers intervention.** Seed grants will support service providers with resources to test and validate a business model that is financially sustainable and ensures that trainees gain employment. The seed funding will support (a) the initial costs required to establish new business operations in the West Bank or Gaza as detailed in a credible business model submitted by the applicant. These costs can include working capital, software, market testing, business development, organizational development, and capacity building (for example, training the trainers) and (b) the cost of the trainings based on results. The newly established training providers will be encouraged to leverage the F4J Development Impact Bond (DIB) before applying for trainings support under TechStart.

44. **Measures for additionality and impact.** The seed funding is expected to be provided in the range of a 50/50 co-funding basis for the initial costs to establish new business operations. The seed grants to support the cost of the trainings will be provided based on results, during a two-year launch period. Results will include a mix of outputs and outcomes, as detailed in the POM. One share of the seed grant will be provided based on number of people trained, while the other share will be provided based on number of trainees who secured employment in the six months following the training and for a period of at least six months. The service provider will receive yet another share of the seed grants based on the number of women who gained employment. After up to two years of support, the training service provider is expected to achieve commercial sustainability, based on the business model proposed.

45. **Selection criteria.** To be eligible, the companies will be required to provide a business model that allows them to monetize their services sustainably in the West Bank and Gaza. Training providers will need to register a subsidiary/branch or new company in the West Bank and Gaza, demonstrate that they already have a validated business model, a global track record of getting trainees employed by local and international companies, and the ability to rely on a market-based business model without public subsidies. Only companies demonstrating that they have the capabilities to establish new business operation without additional technical assistance from the project will be selected.

Grant Window 3: New HR IT service providers
46. **Rationale for financing new HR IT services.** Palestinian firms face challenges in recruiting and finding new employees with the skills that meet the needs of new client projects. This can lead to long delays in recruiting staff or mismatches between the staff being recruited and the requirements of a client project. Because there are no existing commercial HR IT service providers established in the West Bank and Gaza, the seed grant’s objective will be to de-risk, encourage, and enable the launch of new providers. HR IT companies will be expected to bring the modern HR IT recruitment best practices, technology, databases, psychological selection tools, or candidate management practices to the Palestinian market.

47. **New HR IT service providers intervention.** Seed grants will support service providers with resources to test and validate a business model that is financially sustainable, as detailed in a credible business model submitted by the applicant. These costs can include working capital, software, market testing, business development, organizational development, and capacity building. HR services for the IT market can include the efficient management of employment, starting from recruitment all the way to termination. Grants will be available on a rolling basis for companies/entrepreneurs that meet eligibility criteria. These criteria will reflect a company’s ability to derive value from these services and will be specified in the POM. For example, criteria might reflect proposed company size and complexity.

48. **Measures for additionality and impact.** The seed funding is expected to be provided in the range of a 50/50 co-funding basis. Women-led businesses will be eligible for a greater share of co-financing in the range of a 70/30 match. It is expected that grants will be offered up to US$150,000. IT companies who receive services from the HR IT providers will be required to complete baseline surveys and surveys after the services have been provided for the project to learn and improve the program over time.

49. **Selection criteria.** To be eligible, the companies will need to register a subsidiary/branch or new company in the West Bank and Gaza and provide a business model that allows them to monetize their services sustainably in the West Bank and Gaza. HR service providers will need to demonstrate that they have the necessary processes and tools, a track record of recruiting employees for the IT sector internationally, and the ability to rely on a market-based business model without public subsidies. Only companies demonstrating that they have the capabilities to establish new business operation without additional technical assistance from the project will be selected.

**Subcomponent 2.2: Grants for shared R&D hubs (US$2 million)**

50. **Overview of subcomponent.** This subcomponent will provide matching grants to support establishment of R&D hubs for exploration of particular targeted technologies relevant to Palestinian IT firms through financing of office and technology equipment, high-speed internet connections, software and software licenses, operating costs, and salaries of employees of the R&D hubs.

The West Bank and Gaza’s small IT service firms will initially need to rely on shared facilities to access some of the technologies of relevance to their global clients, such as hardware and software platforms. There are small initiatives in the Techno Park in the fields of FinTech, augmented reality/virtual reality, IoT, artificial intelligence, and a Fab Lab for prototyping, but these initiatives are currently lacking the
necessary key ingredients for successful R&D namely demand-driven financial and technological sponsorship from leading international buyers who could also be the users of the R&D outputs and have barrier-free access to the latest technology and equipment. Other missing elements are access to the latest technological know-how and the involvement of leading local or international professors, researchers from academia, or professionals from private sector.

51. **Intervention.** The project will provide grants for R&D hubs that are demand-driven as demonstrated by financial co-sponsorship from the private sector and by business models with long-term sustainability prospects. An R&D hub will be expected to offer technology facilities and services to private sector clients. The project will not fund an R&D hub that is intended for the private use of a single firm alone. Moreover, the R&D hub is not intended to be staffed by researchers working on their own projects but to offer facilities and support staff (for example, technicians) to the local market on a revenue-generating basis. The project will finance office and technology equipment, software, and technical staff salaries during the first year of operation. No works will be financed through the grants. Any new appliances, equipment, technologies, and facilities will be required to be substantially more energy-efficient than the previous versions. This subcomponent will offer a matching grant to cover part of the amount necessary to launch a new R&D hub. The R&D hubs that are combined with different business models, such as co-working spaces or training spaces, will be eligible for funding.

52. **Measures for additionality and impact.** The project is expected to require a 50 percent funding match from the private sector.

53. **Selection criteria.** Grant funding will be provided to applications that met the eligibility criteria specified in the POM. Criteria will require a market-oriented and sustainable business plan. The R&D hub will have institutional autonomy from academic or public sector institutions and have its own governance structure. Moreover, the private sector will play a role in the governance of the R&D sector. The R&D hub will offer services on a commercial basis, including to SMEs and startups. Proposals will be considered on a rolling basis.

54. R&D proposals will need to demonstrate that the targeted technology niche is clear and that there is a defined market for the knowledge services where there is demand for Palestinian deals and where the related technologies are available. Funding will also be restricted to organizations with business models that are already oriented toward the private sector. This implies that applications from universities or other research institutions will only be considered if in partnership with the private sector and if they include the creation of a separate legal entity with an autonomous governance and management structure to host the R&D hub. Applications from groups of companies, local or foreign, can require the establishment of a host organization.

55. The project will attract proposals for the R&D hub by undertaking outreach activities to different actors of the IT ecosystem. The component will also source possible investors through FDI promotion activities in Subcomponent 3.2. Applications for the grant are expected to arrive from private companies or groups of companies, investment funds, or international buyers active in the West Bank and Gaza.
**Subcomponent 2.3: Grants for IT Business Infrastructure (focus on Gaza) (US$0.5million)**

56. **Overview of subcomponent.** This subcomponent will provide matching grants to eligible Palestinian IT service firms to finance business infrastructure, including, *inter alia*, office furniture, high-speed internet connections, technology to facilitate remote work, computer and technology equipment, and operating costs. While the focus of the support will be on Gaza, companies in the West Bank are also eligible to apply.

57. **Intervention.** Matching grants for IT business infrastructure will be provided to firms that meet minimum eligibility requirements. To be eligible, firm co-financing will need to originate from private sources. Women-led businesses will be provided with a higher matching share. Maximum amounts will be specified in the POM. This subcomponent will mostly benefit Gaza but can be open to West Bank businesses as well. Examples of business infrastructure that will be supported by the grants are improvements in office ergonomics, such as office furniture, and expansion or upgrades in IT/networking equipment and user clients. The grants will also be open to groups of companies looking to establish joint infrastructure or individual companies aiming to establish open shared infrastructure such as an IT hub where companies may collocate and benefit from the efficient use of shared infrastructure. Grants will be provided on a rolling basis and consider business plans that demonstrate needs and leverage of the infrastructure for IT services purposes.

58. **Measures for additionality and impact.** The project is expected to require a 20 percent to 50 percent co-funding from the private companies. Women-led businesses will be eligible for a greater share of co-financing requirements. The co-financing percentage will depend on the financial situation of the firm, growth potential, the size of the company, and business proposals, as detailed in the POM.

59. **Selection criteria.** Companies need to be legally registered in the West Bank or Gaza. The business will have a credible business plan that is financially sustainable in the long-term and demonstrate growth potential. Beneficiary firms will need to demonstrate in their proposals that their ability to fulfill client demands is affected by improper business infrastructure capacity.

60. To prevent the re-selling of equipment under this activity, firms will be requested to separate these assets in their asset list and also by distinguishing asset tagging, and a physical inventory of these assets will be carried out midterm and before the end of the project to confirm possession and use of purchased equipment and grants to be paid back for any missing equipment.

61. **COVID-19 economic impact response measure.** Business infrastructure grants will cover 100 percent of the costs of high-speed internet connections and software licenses that enable staff of IT service firms to work from home (for example, virtual meetings and project management). This will enable companies to continue working on client projects during lockdown periods.

**Component 3: Improving market access, and increasing demand and investments**
62. This component aims to stimulate global demand for Palestinian IT services by reducing information costs, search costs, and transaction costs among international buyers, investors, and local firms. It also seeks to stimulate demand by brokering collective action and deals among international buyers, international investors, and local firms.

**Subcomponent 3.1: Awareness Raising and International Market Linkages (US$0.8 million)**

63. **Overview of subcomponent.** This subcomponent will engage international intermediaries to provide awareness raising and matchmaking services for Palestinian IT sector abroad and broker business deals, in order to: (a) increase international awareness of outsourcing opportunities in the West Bank and Gaza; (b) locate global customers for Palestinian IT firms adversely affected by COVID-19; and (c) facilitate deals in the Palestinian IT outsourcing sector.

64. This subcomponent aims to widen the window of opportunities for the Palestinian IT companies to meet and engage with potential new international clients and to provide credible market channels between international buyers and the West Bank and Gaza IT services sector. To achieve this, the component will raise international awareness of IT services/outsourcing opportunities in the West Bank and Gaza and facilitate deals in IT services between international firms and the West Bank and Gaza. This will require contracting internationally credible intermediaries who will diffuse information on the Palestinian IT sector abroad and broker deals with existing and new clients. The project will not, however, provide grants to international buyers (that is, MNCs). For this subcomponent, the project will need to rely on service providers with extensive linkages to the global MNC community as well an understanding of the capabilities of Palestinian companies. Since this subcomponent is interrelated with Subcomponent 3.2., especially with regard to outreach and awareness raising among international firms, the components will be implemented in close coordination. This subcomponent will result in (a) an increase in sales for participating companies by means of organic growth or new clients, (b) an increase in knowledge and greater trust in the Palestinian IT sector abroad, and (c) increased collaboration between the sector players and an increased capacity to collectively organize sector-level awareness and investment initiatives.

65. **Rationale for supporting awareness-raising and brokering.** The West Bank and Gaza suffers from perception issues from international buyers. These businesses do not consider the West Bank and Gaza as an option for doing business. Even existing international clients of Palestinian IT exporters face perception difficulties within their corporate environments. This limits opportunities for expanding into the Palestinian market or engaging in it at all. Moreover, international buyers face difficulties in understanding the market and face difficulties in understanding how to do business in the West Bank and Gaza. Local firms in the sector, however, are still young, small, and have not yet developed the capabilities to approach global markets or understand what types of business opportunities are available with international buyers and what it takes to effectively engage with them and deliver projects. The Palestinian IT services sector is small and fragmented and has not yet demonstrated the ability to work together to provide an effective response to this challenge which reinforces the initial perception. The fact that the percentage of international buyers considering outsourcing to Palestinian firms more than
doubles after a first trial contract was completed (see paragraph 22), indicates that there is a lot of unmet potential to promote market linkages. This subcomponent will result in (a) an increase in sales for participating companies by means of organic growth or new clients, (b) an increase in knowledge and greater trust in the Palestinian IT sector abroad, and (c) increased collaboration between the sector players and an increased capacity to collectively organize sector-level awareness and investment initiatives.

66. **Intervention.** As a first step, the project will conduct research on the needs and requirements of international buyers and on the strengths and gaps of the Palestinian IT sector. The team carrying out this activity will rely on its own research to understand the strengths and gaps of Palestinian firms, as well as from insights from firm assessments and firm diagnostics conducted under Subcomponents 1.1, 1.3, and 2.4. This research will allow targeting relevant international buyers and identifying a best suited mix of instruments (for example, export promotion, non-equity modes of investment, and linkages with FDI); raising awareness of relevant IT services capabilities; and relaying market needs to managerial upgrading teams of business advisers under Subcomponent 1.3 so that they are able to integrate them in their program. The research will also include a baseline survey of existing and prospective international buyers to gauge their perceptions of the Palestinian IT services market. Similar surveys will be conducted at the midpoint of the project and at the end of the project. While in parts, overlapping with the research done under Subcomponent 3.2., this research will focus more on data points promoting the capabilities of the Palestinian IT firms to international buyers compared to promoting the Palestinian market as an attractive investment location.

67. In light of the information asymmetries, international buyers generally value access to reliable information and support in identifying the right local partner. The project thus will conduct awareness-raising activities of the West Bank and Gaza’s IT export services capabilities abroad. Activities could include for example, support to develop a marketable value proposition for the West Bank and Gaza, participation in major technology events in key target markets, the publication of reports on the Palestinian IT export sector market, web marketing, and also disseminating up-to-date information on potential export markets (market intelligence) to Palestinian firms. This will include, for example, information on market structure and value, customer requirements, rates, and technology trends. Information will be disseminated through reports, events on foreign markets, databases, and other useful sources. The PIA will disseminate this information proactively and will also be available for one-on-one consultations. The PIA will undertake outreach activities to enroll Palestinian firms in their export promotion service.

68. Under this subcomponent, the PIA will also engage in strategic promotion of market linkages through providing matchmaking services between international buyers and Palestinian companies. Matchmaking implies a more active role than information provision and involves focusing on the specific needs of international buyers and the capabilities of local firms. Matchmaking can take multiple forms and varied degrees of complexity: from organizing one-on-one meetings and acting as a broker and adviser in negotiations to sponsoring fairs, exhibitions, missions, and conferences. Successful business-to-business matchmaking programs are built on (a) knowing the needs of the demand side well; (b)
proactively working with local firms, (c) briefing them to ensure that they are prepared for the criteria important to the buyer, and (d) measuring results and feedback.

69. The PIA will identify demand and generate leads from a potential export client according to a predefined business development process. The lead will then be conveyed to Palestinian firms who are registered in the export promotion service. Based on information that is contained in the business leads, the firms will follow up individually or in groups with the PIA. Because not all local firms will have the capabilities to credibly respond to international business leads, it will be important that the PIA has developed a set of selection criteria that ensures that most suitable local firms will follow up on the business lead. The PIA will coach selected Palestinian companies during their interaction with international buyers. The project is expected to lead to a significantly larger stream of revenues for Palestinian companies through repeat purchases. The PIA will develop an export promotion plan with KPIs and targets. Details will be specified in the POM.

70. **Measures for additionality and impact.** The project will make use of a funnel approach to match international buyers and their local suppliers and KPIs related to leads generated, in line with international best practices on market linkages promotion.

71. **Selection criteria.** The exact selection criteria will be informed through the market and capability assessments in Components 2 and 3, but as a guiding principle, the selection criteria will prioritize the suitability of a company to the needs of a buyer that has been identified as a prospect by the PIA. Formulating fact-based and transparent criteria is particularly important in markets that still have to establish trust and confidence with international buyers. Typical indicators of suitability include international experience, technical experience, language capabilities, size, financial health, and basic certification. Feedback from international buyers will be collected and used to further finetune the criteria throughout the process.

72. **COVID-19 economic impact response measure.** This subcomponent will include a dedicated measure to help IT service firms that have lost revenues in global market segments affected by the COVID-19 crisis to find new customers. This will help businesses avoid laying off staff that are underutilized due to loss of revenue and will help businesses reorient themselves to more resilient market segments. Where businesses do not have the managerial or technical capabilities to reorient themselves to new customers, they will be guided to first apply to human capital and business advisory support offered in Component 1.

**Subcomponent 3.2: Promotion and facilitation of FDI in the Palestinian IT ecosystem (US$0.7 million)**

73. **Overview of the subcomponent.** This subcomponent will provide technical assistance and consulting services to (a) improve delivery of investor services, (b) increase investor outreach campaigns, (c) generate new investment leads, and (d) assist foreign investors with establishing business presence in West Bank and Gaza. Where relevant, this subcomponent will leverage the export promotion awareness-raising efforts of Subcomponent 3.1 to promote FDI.
74. FDI that provides services to the Palestinian market will fill gaps in complementary inputs that are not present in the West Bank and Gaza’s IT sector. FDI in IT services is expected to result in job creation from the investors’ global client network and technological specializations, improve the sector as a whole through greater competition, and result in positive spillovers to other IT firms through better managerial practices and through the upskilling of the local workforce. The subcomponent will achieve this by increasing knowledge and trust in the Palestinian IT sector abroad and generating leads for new investment, either by attracting new foreign investors to the country or having existing investors expand their investment. This will be realized through improved delivery of investor services, especially related to marketing and information services, targeted investor outreach, and assistance to investors following site visits and setting up a company in the West Bank and Gaza. Ultimately, this subcomponent will lead to new FDI in the IT sector and new jobs created.

75. **Rationale for supporting FDI attraction.** Information asymmetries constitute a significant obstacle to FDI flows. Investment decisions are influenced by risk-return calculations. Thus, the provision of compelling information to support and influence investor decision-making is crucial to catalyze potential investor interest and lower-perceived country risk. The need for information and facilitation services is even more pronounced in FCV contexts that suffer from lack of credible information and an, often, overly negative image. However, a study based on 156 countries has shown that the quality with which these services are provided has a significant influence on how much FDI is attracted.

76. There currently exists no comprehensive information source nor promotion efforts to market the IT sector in the West Bank and Gaza in relation to international investors, leaving a sizeable information gap. Moreover, the relevant public entities mandated to improve location branding and marketing, such as PIPA, PalTrade, or PITA, are not able to fulfill their role due to various factors ranging from lack of vision and strategy to lack of capacity and having the right set of staff to effectively offer these services. In such an environment, it is considered beneficial to engage a PIA with experience and expertise in advising international buyers on investment location and influencing international industry perception. By working in close collaboration with PIPA, PalTrade, and PITA, the PIA will also contribute to capacity building of the agencies to learn how to attract and manage investment projects and to shift away from simply offering incentives and focusing on domestic investors only.

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56 See Harding and Javorcik (2012): The study is based on data collected by the World Bank’s Foreign Investment Advisory Services through the Global Investment Promotion Benchmarking (GIPB) series 2006–2012 to assess how much the quality of investment promotion services affects FDI inflows. The effect observed is statistically significant and economically meaningful. A one unit increase in GIPB score was associated with a 1.5 percent increase in FDI inflows.
77. **Intervention.** As a first step, the project will conduct research on the needs and requirements of international investors and on the strengths and gaps of the Palestinian IT sector. The objective of this research is to fully understand the key trends and location determinants of international investors in the IT sector and to gather information on how the local sector matches these determinants which will allow for the right targeting of relevant international investors. This targeting is essential for any consequent promotion activities, not least to ensure that funds are focused on most promising segments, especially in relation to target markets/regions and target investor characteristics (for example, diaspora). Specific data points would, for example, not only include market size and growth, workforce skill and availability, key operating costs, relevant education and research institutions, site availability, fiscal and non-fiscal incentives, and any case studies of similar investors, but also export markets, ecosystem infrastructure, and the regulatory framework governing the investment climate. The team carrying out this activity will rely on its own research as well as on insights from Subcomponent 3.1 to understand the Palestinian IT sector.

78. FDI promotion services are most effective when strategic, proactive, and targeted. For several reasons, such as, among others, (a) the particular political and economic circumstances of the West Bank and Gaza, including the barriers to import and export of goods; (b) the availability of a young and well-trained workforce; and (c) the relatively low up-front cost of investment that IT firms require, the focus on the IT services sector seems a promising starting point. Beyond sectoral targeting, a tailored FDI promotion campaign might also be focused on certain types of investors, for example, Palestinian diaspora and regional investors which may leverage their superior knowledge of the local context and their affinity with their target markets, investors following business models to be among the first in new markets or even those that also consider nonfinancial motive for investing in a FCV-affected country.

79. The project will provide a set of marketing and information services with the main goal to generate awareness and interest in the value propositions that an economy can offer. The PIA will prepare and implement a strategic investor outreach campaign where they will establish contacts with prospective investors, develop an investment funnel system with targets, and generate new leads. Moreover, the PIA will then facilitate the investment process for interested investors. This will include helping foreign investors navigate the process of launching a new local entity in the West Bank and Gaza, including guidance on the relevant processes, regulations, labor laws, and so on. Where necessary, the project would also point out to and establish links with relevant public or private stakeholders should factors of the investment climate discourage or hamper the exploration, establishment, operation, retention, or expansion of foreign investments so that potential reforms can be designed.

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80. **Measures for additionality and impact.** This component follows international best practice in investment attraction, in particular on sector targeting\(^{58}\), as both internal\(^{59}\) and third-party studies\(^{60}\) confirm. Ultimately, this subcomponent will lead to new FDI in the IT sector and new jobs created.

81. **Selection criteria.** Being a market-driven intervention, selection criteria for investor targeting will have to be informed through the market assessments, including competitive benchmarking, undertaken in the first step. As a guiding principle, foreign investors with established links to the West Bank and Gaza, that is, diaspora, investors from the Arab region, or those already importing IT-services from the West Bank and Gaza or neighboring countries, may be targeted. In light of the conversion rates between investors contacted, interested, met, and those that actually invest, outreach campaigns naturally need to focus on those investors with the highest propensity to invest but keep a certain degree of flexibility.\(^{61}\)

Typical indicators to decide on the prioritization of investors are related to the strategic objectives of the FDI and wider economic policies in the West Bank and Gaza, that is, contribution to job creation, size of the investment, providing access to new markets, contributing to training and technology transfer, and so on.

**Component 4: Project management and implementation support**

82. This component will strengthen the capacity of both PIA and MTIT, through the provision of management and implementation support to the PIA and MTIT in managing and overseeing project activities, including (i) staffing capacity and expertise to lend technical and implementation support; (ii) data collection, aggregation and periodic reporting on the project’s implementation progress; (iii) monitoring of key performance indicators; and (iv) overall project operating costs, audit costs and monitoring and compliance with ESCP.

83. This component will finance US$2.25 million in project management and capacity building. Of this, US$2.1 million will be dedicated to project management costs of the PIA including operating, technical, and M&E costs. The PIA will be responsible for the day-to-day administration of the overall project planning, coordination, and technical and fiduciary supervision. The remaining US$0.15 million will finance capacity building for the MTIT. Capacity building of MTIT staff is an essential element of TechStart and it will be instrumental to project sustainability and long-term success. The PIA will build the capacity of MTIT

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\(^{58}\) Key aspects of successful targeting of competitive sectors for FDI promotion include (a) identifying target sectors by competitive benchmarking, (b) utilizing proactive targeting and investor outreach methodologies, and (c) identifying 'missing links' in domestic ecosystems and/or corporate value chains.


\(^{61}\) The World Bank Group’s experience in supporting clients on investment promotion over the past 20 years confirms the following metrics: out of all investors that indicated interest (for example enquiring email) between 7 percent and 10 percent confirm a meeting with the investment promotion agency. One-fourth of these investors will also follow up to visit sites in West Bank and Gaza, and again 25–30 percent of these investors will actually finalize its investment.
staff in project management, technical, administrative, and operational area of the project. In compliance with the overall capacity-building priorities of this program, the technical, procurement, FM, safeguards, and M&E positions will have a significant mentoring and know-how transfer, including a twinning arrangement with the staff selected by the MTIT to develop these areas of professional competence.

84. The PIA will also be responsible for establishing an international advisory committee and holding periodic meetings to help guide the design and implementation of the project. International experience has found that market linkages approaches are most successful when they involve international buyers. The international advisory committee will consist of international buyers headquartered throughout the world and will help provide insights on the needs of export markets, on the functioning of global IT value chains, on technology and market trends, and on their perceived effectiveness of the project’s activities. The PIA will organize an advisory committee meeting on a biannual basis.

85. The PIA will ensure coordination of the project’s communications strategy, covering all project components and stakeholders. A strong communication strategy will strengthen stakeholder engagement and disseminate project learnings and results to support early knowledge-sharing and capacity building more broadly. Communications will include online and social media strategies, given the nature of the project and the stakeholders, most of whom use online and social media to communicate and engage with their audiences. Other communications tools will also be considered, such as a series of workshops and a publicity campaign to make the demonstration cases known to the public and help to turn them into new role models. One of the major lessons of innovation operations is that it is key to celebrate success: new role models do not emerge automatically; they need to be made public.
ANNEX 3: Climate Co-Benefits

COUNTRY: West Bank and Gaza

Technology for Youth and Jobs

1. **Climate screening and vulnerability context.** Based on the Climate Screening Assessment, the overall risk to the outcome/service delivery of the project is moderate. The main climate change risks West Bank and Gaza is likely to confront are extreme temperatures and droughts. Global circulation models forecast for this region a general increase in seasonal mean temperature throughout the domain with peaks of approximately 2.5 °C, especially in winter and autumn. Increase in the annual minimum temperature is larger than increase in annual maximum temperature. Rainfall is the only source of aquifer recharge in the West Bank and Gaza. One of recent studies also predicts that consecutive wet day index will decrease by about two days in the north of Israel and by about one day in the central and southern parts of Israel. Similar pattern can be assumed for adjacent West Bank and Gaza areas. “The number of days exceeding the 10- and 20-mm thresholds are projected to decrease by 3–4 days. The consecutive dry days index is projected to increase by ~20 days in most part of the study region...” The model also predicts shorter winters and longer summers. Water scarcity will be further exacerbated by the increased intensity and frequency of droughts. While water demand is already outpacing supply in the West Bank and Gaza, the deficit is projected to substantially increase by 2050.

2. At this time, total population of West Bank and Gaza is approximately 4.9 million: 2 million in Gaza Strip and 2.9 million in West Bank. Gaza strip population density is very high, comparable to that of Boston, United States, or Tokyo, Japan. Approximately 66 percent of the population in Gaza, and 56 percent in West Bank, are younger than 25 years. According to the United Nations Population Fund (UNFPA) report “Palestine 2030 – Demographic Change: Opportunities for Development, 2017,” and interview of Andres Thomsen of UNFPA, population of Gaza will grow by additional 1.3 million by 2030, and will more than double by 2050, from 2 million to 4.8 million. The population of West Bank is projected to increase from the current 2.9 million to 4.7 million by 2050. This creates favorable conditions for significant population growth in the next several decades, will pose a heavy burden on already depleted water resources and scarce land, and offer opportunities for workforce development (by providing education to young generation).

3. According to recent RAND publication “less than 11 percent of Gaza’s population had access to safe drinking water through the public network.” The remaining 90 percent of population depend on water tanks, bottles, and containers. Water is limited, and water consumption practices are often

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unsustainable. Shortage of water and substandard water quality disproportionately affect the segment of West Bank and Gaza population who live below the poverty line, because their resources (and ability) to buy water are limited. Low-income population in the West Bank and Gaza, women and children are the most vulnerable to water shortages and will continue to remain the group most vulnerable to the effects of climate change.

4. Low availability of water and high density of population mean that the rapid growth of agricultural sector in either Gaza or West Bank is unlikely: both land and water are needed to grow plants. In the next 30 years, the state will likely find it challenging to produce enough food locally and may rely on imported food products (will need funds to purchase food products abroad).

5. Critical infrastructure in the West Bank and Gaza (water, energy/electricity supply, wastewater treatment, and solid waste treatment) have been either partially destroyed or/and do not function adequately. These conditions, coupled with trade restrictions, create unfavorable conditions for industrial real production. As such, climate change in the West Bank and Gaza is taking place in the context of existing water shortages and challenges with groundwater quality, coastal aquifer recharge, and energy shortages. West Bank and Gaza is aware of these challenges and has adopted a National Adaptation Plan to mitigate the effects of climate change (Palestinian Environment Quality Authority in 2016).

6. As the West Bank and Gaza is looking for economic activities to boost country GDP, turning to human capital and workforce development is the most logical solution to the problem of natural resource shortages. Building human capital in IT sector will provide multiple climate change adaptation co-benefits, at the national and local levels.

7. **Intent to address climate hazards and linkage to project activities.** Climate change will adversely affect future economic growth, productivity, and social stability in West Bank and Gaza, requiring a carefully planned response to strengthen local adaptation and resilience to climate change. The identified climate change risks and vulnerabilities have been reflected in the project design. Specifically, the potential impact of extreme temperature and drought is considered under the project’s investments. New appliances, equipment, tools, and infrastructure will be required to be energy-efficient and use renewable energy sources instead of conventional energy sources. To support new business, IT service providers, R&D hubs, the project grants will finance IT equipment and services, which may potentially include cloud computing. Because cloud computing reduces the need for physical equipment (for example on-site servers) the IT systems would be less vulnerable to climate and natural disaster risks. If there is a decision not to use cloud computing, service providers will be required to prepare plans to mitigate potential climate and natural disaster risks and conduct relevant training to mitigate risks. The project will also encourage ‘tele-commuting’ to reduce transportation emissions. Development of the IT sector could improve resilience in the country overall beyond the IT sector alone. It could help all sectors of the economy to better adapt to climate change and mitigate climate change (reduce greenhouse gas [GHG] emissions. Taken together, these measures contribute to climate change adaptation by reducing vulnerability to the impacts of climate change.
8. **Adaptation co-benefits.** Several components of this project include activities that contribute to climate co-benefits. For instance, Subcomponents 1.3 and 1.4 will seek to increase access of women to IT services companies by promoting solutions for ‘tele-commuting’. IT business infrastructure under Subcomponents 2.3 and 2.4 where electricity is used, would use solar panels for power generation and limit reliance on electricity supplied by the Electricity Authority. Any new appliances, equipment, technologies, and facilities for R&D (under Subcomponent 2.3 of the project) will be required to be substantially more energy-efficient than the previous versions and will exceed the prevailing energy standard. The software platforms under Subcomponents 2.3 and 2.4 would also use cloud-based systems. Broadly, support to businesses service providers to purchase IT services (Subcomponent 2.1) and grants for R&D (under Subcomponent 2.3) of the project could improve resilience in West bank and Gaza overall—beyond the IT sector. This could help these sectors to better adapt to climate change and mitigate climate change (reduce GHG emissions). These co-benefits would be incorporated in the criteria for developing grant proposals.

9. **Contribution of IT sector to climate change adaptation efforts.** Strong IT sector and R&D will be essential in developing products to increase resilience and adaptation in various sectors of economy. For example: offer early warning system for citizens of WB&G regarding adverse climatic events, use cloud computing and reduce the vulnerability to heat waves of the local digital information carriers in public and private organizations, improve energy sector functioning, improve healthcare provision (use lessons from COVID-19 epidemics), provide opportunity for work-from-home and distance/online education for school and college students, optimize ambulance or firefighters’ response time, and so on. In addition to this, development of the IT sector may reorient the economy from relying on the sectors which are particularly vulnerable to the effects of climate change (e.g. agriculture). Stronger IT sector could improve energy efficiency of all other sectors of economy in WB&G. For example: more efficient transportation system, more efficient energy and water supply system, creating jobs in IT sector and reducing reliance on high-GHG-emitters: industries and/or agriculture.

10. **Planned/intended contribution of project activities to climate change adaptation and mitigation.**

<table>
<thead>
<tr>
<th>Component and activities</th>
<th>Financing amount</th>
<th>Climate change co-benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Component 1:</strong> Will focus on the supply side, seeking to improve the capabilities of IT service firms by supporting the technological and managerial upgrading of firms.</td>
<td>US$4.6 million</td>
<td>This component will generate both direct and indirect climate change adaptation co-benefits. Technological upgrade of firms creates opportunity for mitigation co-benefits if upgrade uses energy efficient and sustainable technology. (Joint MDB Climate Finance Methodology, Category 1.1 “Electricity generation, solar power” and Category 8 “Low carbon technologies”, potentially</td>
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## Component 2: Will focus on improving the ecosystem of IT service firms in the West Bank and Gaza.

- **US$4.75 million**
- **Description:** This component contains activities eligible both for direct climate change adaptation and for climate change mitigation co-benefits. The use of solar panels power generation for IT business infrastructure, and several other project elements (the use of energy efficient appliances, equipment, technologies, and opening pilot facilities for R&D) qualify as climate change mitigation activities according to the Joint MDB Climate Finance Methodology, Category 1.1 “Electricity generation, solar power” and Category 8 “Low carbon technologies”, potentially also Category 10 Miscellaneous – other activities with net GHG reduction.

## Component 3: will focus on increasing global demand and investments in the IT services market.

- **US$1.5 million**
- **Description:** This component will generate indirect climate change adaptation co-benefits, through strengthening the IT sector and facilitating its development and R&D in IT.

## Component 4: will provide project management and implementation support

- **US$2.25 million**
- **Description:** This component is essential for successful implementation of components 1-3. Co-benefits, both mitigation and adaptation, – prorated accordingly to the shares of other subcomponents.
ANNEX 4: Value Added and Human Skills Requirements in IT Services

COUNTRY: West Bank and Gaza

Technology for Youth and Jobs

1. IT services can be classified into entry level, mid-level, and advanced level according to both the value added they provide and the human skills that they were required. Higher skills generally correspond to higher value-added activities along this continuum. TechStart will focus on mid and advanced level IT services.
HUMAN SKILLS REQUIREMENTS

- **advanced level**
  - Masters level education and meaningful work experience in the subject matter, strong math and statistics, computer languages and coding, engineering, graphical modeling, algorithms

- **knowledge**
  - Subject matter expertise, applied learning, research and analytical skills, conceptualization skills, thinking, self-driven, results-oriented, high-level computer knowledge (hardware and software), ability to work in global teams

- **content**
  - Advanced learning skills, creativity, critical thinking, language skills, artistic skills (image and animation), teamwork, multitasking, problem solving, online learning, data retrieving (searching) skills

- **information**
  - Front office: speaking and communication, customer service, emotional intelligence, language skills, flexibility, work under pressure
  - Back office: learning and understanding, job-specific knowledge (Fin, HR, IT), internal customer service, work accuracy

- **data**
  - Ability to follow a process
  - Eye vision
  - Typing skills and speed
  - Discipline, productivity, quality
ANNEX 5: Detailed Lessons Learned and Reflected in the Project Design

COUNTRY: West Bank and Gaza
Technology for Youth and Jobs

1. **Firm subsidies (Components 1 and 2).** The project reflects lessons from an Independent Evaluation Group review of World Bank matching grant projects over two decades. The report provides an economic rationale for using public funds through matching grants, including for training workers (Subcomponents 1.1 and 2.1), subsidizing business development services (Subcomponent 1.2), and for investments that have high externalities (Subcomponents 2.1 and 2.2). The report also provides a detailed list of design considerations in each case to avoid the pitfalls and risks of matching grants. The report examines and provides lessons on using matching grants for several purposes.

2. Some of the salient lessons learned from the report include appropriate governance and transparency arrangements; avoiding the use of grants for purchasing marketable goods; ensuring that the implementation agency has an adequate capacity to implement; the minimization of advance payments; the availability of alternatives and complementary instruments to matching grants such as vouchers, sub-loans, business plan competitions, and reimbursable instruments; and the positive effects of coupling grants with diagnostics and technical assistance. The report also cites that while the matching portion of the grant can have an effect on market take up there is no scientific way to select it and that it differs across projects. Other lessons from World Bank operations include the stipulation that matching components come from private sector sources.

3. Examples of World Bank-funded projects with entrepreneurship grants are the West Bank and Gaza F4J and IPSD Projects, the GENIE Project and the Morocco Financing Innovative Startups and Small and Medium Enterprises Project. An example of a World Bank project providing grants to shared IT business facilities is the Mexico Information Technology Development Project.

4. Based on this evidence, the firm grants provided in the TechStart Project are provided on a matching-basis, with a limited up-front disbursement of the grant, with the exception of grants provided for IT and business infrastructure in Gaza which are intended to address policy failures and market distortions that pose severe restrictions to access to finance.

5. The project also includes grants for service providers (training services and HR services Subcomponent 2.1) to develop local markets for services that have unmet demand. Approximately one-quarter of World Bank matching grant projects include grants for service providers. The project also ensures that a range of alternative and complementary instruments are available to beneficiary firms.

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Palestinian firms will be allowed to benefit from the multiple grant, stipend, and technical assistance schemes offered by the project.

6. The grants in the project are disbursed on the basis of expenses and outputs realized. In some cases, grants tranches are provided on the basis of outcomes (for example, training providers in Subcomponent 2.1). However, there is very little international evidence on the performance or design of outcomes-based grants for entrepreneurship or innovation (that is, new-to-the-market services in the context of the project). Therefore, the performance-based aspect of the design is considered as innovative and risky.67

7. The project also draws from the DFID/EU Palestinian Market Development Program which provided matching grants to firms in a variety of sectors, including the IT sector. A program review found that “future programming should aim to provide larger targeted grants to fewer beneficiaries and should be more sector focused reducing the administrative, advisory, and vetting burdens”. The review also recommended that future programs use a more holistic approach that targets key bottlenecks and drivers of systemic changes, as well as larger companies that have more potential to create jobs (the program mainly funded companies with fewer than 20 employees). The program demonstrated demand for IT sector investments in human capital to acquire business in new areas, which was one of the ways local companies used the grants. The review also found that Gaza’s strict restriction on access and movement of goods and people was a key obstacle to successful interventions, preventing technical expertise and equipment from being imported. Finally, the review found that “effective intervention in a sector as complex and internationally competitive as ICT requires major resources and a long lead-time to show results”.68

8. **Firm upgrading services (Component 1).** The project reflects lessons on management upgrading from Bank projects and analytical work. The World Bank’s *Instruments to Support Business Innovation*69 report examines different instrument options for technology absorption and adoption. The report highlights the importance of building firm capabilities to absorb and adopt technologies by improving internal processes and managerial capabilities (Subcomponent 1.2) as well as the market and system failures addressed by such instruments, and possible drawbacks and risks. The report finds that evidence on effectiveness tends to be positive, including through randomized control trials in developing countries. The report finds that incorporating a diagnostic service can help identify the main barriers to growth and makes it more likely that the advice is tailored to the business, and that change will both occur and be productive. Subcomponent 1.2 of the project includes such a diagnostic as well as the report’s recommendation of developing an improvement plan for each firm. To ensure the quality and relevance

69 World Bank. 2019. *Innovation Policy Practitioners’ Guide. Instruments for Capability Building and Technological Catch-up in Developing Countries*
of provided services, the report recommends vetting the service providers, a strategy which will be used in the project. The project also incorporates the report’s findings on the benefits of centralizing service provision and on the importance of proactive promotion and outreach to attract firms to the program. The World Bank has evaluated several firm upgrading pilots, including in Nigeria and Colombia, demonstrating positive outcomes. Much of the positive evidence on firm capability upgrading has been based on approaches that utilize consulting or outsourcing, rather than from in-class training models. Typically, the more mature technology upgrading programs such as the Manufacturing Extension Partnership in the United States have gravitated toward models that utilize awareness-raising, benchmarking, diagnostics and individualized advisory services rather than a more formalized group training approach. These mature programs have also found it more effective to evolve from focusing on helping to transfer specific technologies to firms, to helping improve firms’ technology absorption capacities. Examples of World Bank-funded projects providing SME management training, coaching and mentoring related to firm upgrading include the Kenya Industry and Entrepreneurship Project, the Vietnam Private Sector Competitiveness Project, and the Kazakhstan SME Competitiveness Project.

9. Investment promotion (Component 3). A World Bank Group review of investment promotion activities found that when they are properly targeted there are positive correlations between promotion and investment. According to the review, targeted and efficient investment promotion activities include “servicing investors’ information needs, strengthening host country’s value proposition and location’s image, facilitating the establishment and expansion process of the investor after establishment”.70 The TechStart Project also considers lessons from a review of World Bank Group activities promoting foreign investment in fragile and conflict-affected situations.71 These lessons reflect that given the additional challenges of overcoming the disadvantages of a fragile situation investment promotion needs to (a) address the lack of reliable and accessible country-level information important for investor decision-making and try to correct an overly negative image, (b) be focused on a small number of subsectors that offer compelling business opportunities, and (c) integrate respected industry leaders and political leadership in addition to the traditional investment promotion agency.72 (Subcomponent 3.2).

10. Market linkages and export promotion (Component 3). A recent World Bank Policy Research Working Paper73 found evidence of positive contributions of export promotion agencies around the world in raising exports. Many World Bank-funded projects have included market linkages and export promotion approaches. Two recent projects focused more specifically on linking IT service providers to international buyers, namely the Mexico Information Technology Development project (P106589) and the Armenia E-society and Innovation for Competitiveness project (P115647). In both projects, export promotion and intermediation activities resulted in deals between local IT companies and international buyers. In both

cases, intermediaries did not represent specific companies but worked on behalf of an entire IT cluster. Other examples of World Bank-funded projects creating sector awareness in international markets include the Ethiopia Competitiveness and Job Creation Project, the Serbia Competitiveness and Jobs project, and the Armenia Trade Promotion and Quality Infrastructure project. Examples of World Bank-funded projects with global investor outreach and facilitation activities include the Armenia Trade Promotion and Quality Infrastructure project, the Ethiopia Competitiveness and Job Creation Project and the Serbia Competitiveness and Jobs project.

11. The TechStart Project also builds on lessons from three projects funded by USAID, the EU, DFID and Cisco seeking to support the IT services sector in the West Bank and Gaza over the past decade. The earliest intervention was an IT sector support project funded by Cisco Corporate Affairs from 2008 to 2012 in coordination with USAID. The project demonstrated that it was possible to build a brand for the Palestinian IT sector through a subsidized demonstration project (the project’s first step was to launch a pilot R&D project with Cisco). An assessment of this program found that Outsourcing was a good way to build capacity to instill high-tech culture by allowing Palestinian firms to learn first-hand how to work with international companies. This was followed by actively reaching out to individual MNCs in the region to share this experience, as well as through broader awareness and branding campaigns, including through the media. One of the signs of success of Cisco’s pilot R&D project was that the company’s R&D groups continued their outsourcing relationships with Palestinian firms after the subsidy scheme had ended.  

12. The USAID COMPETE project helped Palestinian software firms scale their services to new markets, such as the Gulf Cooperation Council and Europe, and strengthen their business relationship with major multinational IT companies. TechStart builds on assessments of the IT sector conducted during the course of these projects, on project reports, as well as on interviews with project implementers and beneficiaries. As part of its interventions, COMPETE project supported export market assessments for select Palestinian companies, as well as with hiring technical experts in export management who assisted and enhanced these companies’ ability to reach international markets. Both activities were associated with new job creation and new export revenues. The project calculated that US$1 of USAID funding invested in export promotion was associated with US$4 of additional exports and calculated a cost per job of US$4,444. Some design lessons from the projects are that given the oversaturation of donor assistance in the traditional IT sector, the greatest potential could be found in focusing on leveraging new technology to improve value chains in targeted sectors. The project also found that organizing interventions through a targeted value chain was more efficient than standalone interventions. Other lessons include the need for wide communication and outreach to attract a critical mass of firms to the program.

13. **R&D hubs** (Subcomponent 2.2): Examples of World Bank-funded projects that support private sector-oriented R&D hubs include a range of projects since the 1990s and 2000s, including in Mexico,

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76 DAI. 2018. *Compete Project, October 2018.*
India, Croatia, Turkey and Indonesia, as well as the more recent Kazakhstan Technology Commercialization Project, and the Strengthening the Science, Technology and Innovation System in Peru project. The TechStart project benefits from lessons from World Bank and other international experience with public access technology centers. Lessons from World Bank-funded projects highlight the influence of governance, HR policies, funding sources, and the industry experience of personnel on the market-orientation of R&D hubs. Several World Bank operations intended to create linkages between R&D institutions and SMEs were not able to meet their objectives due to these limiting factors (e.g. in Ecuador, Indonesia and Croatia). Other projects targeted these factors and were able to achieve significant results (e.g. in Mexico and India). The TechStart project will reflect these lessons by applying principles that ensure the market-orientation of the R&D hub through its governance structure, funding structure and staffing structure. The project also benefits from lessons from an IT R&D lab (very-large-scale-integration lab) that was developed in the West Bank and Gaza as part of a donor-funded project. A major lesson from this project was that in the absence of university reforms to ensure their greater market orientation labs that are hosted and owned by universities are unlikely to be able to serve market needs. To reflect this lesson, to be supported by the TechStart project R&D hubs will be required to have private sector players in their governance and investment. R&D hubs that are fully university-owned and governed will not be eligible.

14. **Gender**: Global studies have shown that promoting gender diversity and investing in women as leaders in companies results in higher efficiencies and productivity for companies. Examples of financial institutions such as BLC Bank that developed specialized products and services targeting to reaching women with financial and non-financial services resulted, among other benefits, in increased profitability, reduced risk, and market growth. The number of female SME borrowers grew by 66 percent compared 34 percent growth on overall portfolio.77

15. **Skills** (Component 1): A market-driven response to skills development, through partnerships with industry, is critical for increasing the relevance of skills. This demand-driven approach is critical for reducing skills gaps in terms of both quantity and quality. Partnerships and continuous interactions between training providers and employers are an important setup for effective skills development. Such partnerships can be achieved through internships or mechanisms to ensure that employers are part of the decision-making process for training curriculum. Providing Palestinian IT professionals with targeted intensive short-term training and internships will facilitate industry hiring, growth and foster diffusion of technology across sectors. The TechStart project will leverage partnerships with firms within and outside WB&G to ensure relevant IT skills development.

16. Skills development programs are more likely to be successful if payments to training providers are linked to results achieved. This is a key lesson learned from international experiences for example in Eastern Europe and Latin America. Performance-based contracts with training providers stimulate innovation in responding to market demand for skills, and therefore tailor training and skills for employment. The project will focus on concrete results through contracting service providers to deliver

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77 World Bank-IFC, MGF Private sector Leaflet 2019
training instead of investing in upgrading infrastructure for institutions. However, the TechStart also aims to promote innovation in the training sector through the introduction of new IT training services. Therefore, the project will not solely rely on outcome-based payments for training providers.

17. Stipends for apprenticeships (or on-the-job training) will help promote participation, particularly for marginalized groups or unemployed youths. Stipend amounts will reflect the trainees needs to enable them to participate fully and complete the apprenticeship. Payment of stipends will be disbursed directly to beneficiaries based on confirmation of services provided. This will therefore be factored into the training contract. A World Bank review of wage subsidies in developing countries suggests that while they may have modest effects in creating short-term jobs in general, they can be useful in situations where learning effects are high, including for first-time job seekers.\textsuperscript{78} The project leverages this finding in Component 1 by ensuring that on-the-job training is delivered for workers who receive stipends. Moreover, the nature of the IT sector entails continuous informal training through learning-by-doing.

18. This project draws upon recent World Bank Group experience supporting rapid IT skill enhancement programs—both in the MENA Region (Jordan with ReBootKamp) and globally (Kenya with Andela). Further, a recent study\textsuperscript{79} by the World Bank has analyzed international best practices in similar rapid IT skill enhancement programs such as coding boot camps.\textsuperscript{80} Examples of World Bank projects with IT practical skills training components are the Mexico Information Technology Development project and the Georgia GENIE project. The United States State Department also funded the Palestinian Internship Program, which helped Palestinian graduates spend several months in MNCs to gain international experience.


\textsuperscript{80} Coding boot camps are short training programs in programming skills—usually no more than six months—that aim to prepare youth for immediate employment in entry-level positions. These will be designed with consideration of the needs of women and men—carried out in a way that is equally accessible to both.