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Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 26-May-2023 | Report No: PIDA35736

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
West Bank and Gaza	P179801	Finance for Jobs III	
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
MIDDLE EAST AND NORTH AFRICA	24-May-2023	12-Sep-2023	Finance, Competitiveness and Innovation
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Palestinian Ministry of Finance	DAI	

Proposed Development Objective(s)

To sustain and expand the scope of the innovative financial instruments tested under F4J I & II, to incentivize private investment mobilization and job creation.

Components

Development Impact Bond
Investment Co-Financing Facility
Project Management
Unallocated

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	15.00
Total Financing	15.00
of which IBRD/IDA	0.00
Financing Gap	0.00

DETAILS

Non-World Bank Group Financing

Trust Funds	15.00

Special Financing	15.00

Environmental and Social Risk Classification

Substantial

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

1. **The West Bank and Gaza are characterized by a high level of Fragility, Conflict and Violence (FCV).** Core drivers of fragility include restrictions on movement and access, internal and external political instability, high policy uncertainty, recurring bouts of conflict with significant impacts on human and physical capital, and an economy with low resilience to external shocks and few sustainable source of growth. Taken together, these FCV drivers significantly constrains investment and economic activity and have produced sustained challenges, which further reinforce the fragile context, including very high levels of joblessness, poverty, and food insecurity, a large vulnerable population with many facing social exclusion, low and uneven access to basic services, especially in Gaza, and weakening citizen trust in institutions. Moreover, climate change, lacking sovereignty over natural resources, and territorial fragmentation exacerbates the drivers of fragility. The fragile context has produced a dire fiscal situation which continues to deteriorate, despite several reform efforts, primarily as the Palestinian Authority (PA) has limited control over its revenues, particularly clearance revenues collected on its behalf by Israel, continues to experience large net outflows to Gaza, and faces sharply declining donor aid levels. The PA has managed to successfully reduce the fiscal deficit (before grants), from 21 percent of GDP in 2006 to an estimated 3 percent in 2022. Nevertheless, the deficit is expected to rebound in 2023 as growth softens. Furthermore, following the election of a new Israeli Government in December 2022, uncertainty in the political and policy environment has increased further, with intermittent increases in hostile rhetoric and actions, which could exacerbate macro and fiscal risks.

2. **The latest data indicate that the poverty rate peaked in 2020, then dropped slightly in 2022.** In the West Bank, poverty rates are lower, but are still sensitive to economic shocks, while in Gaza any change in social-assistance flows can significantly affect the population's well-being. According to the most recent official statistics, 22 percent of Palestinians lived below the poverty line in 2016/17. World Bank estimates based on trends in real per capita GDP suggest that the poverty rate peaked at 26.5 percent in 2020. As the impact of pandemic-induced economic restrictions waned, the overall poverty rate dropped slightly, to an estimated 24.5 percent in 2022, indicating that there are about 1.25 million people currently living below the poverty line[1].

3. **While employment increased in 2022, the unemployment rate remained high.** Employment rose by two percentage points in 2022, largely driven by increased labor force participation, as more workers returned to the labor market after the COVID-19-related lockdowns eased. The number of Palestinians working in Israel and the settlements continued to increase compared to 2021. As a percentage of those employed, 22.5 percent of Palestinians in the

[1] The poverty line was $5.5 per person per day in 2011 purchasing-power-parity (PPP) terms.

West Bank worked in Israel and the settlements, compared to 0.8 percent of Gazans. Despite declining from 26.4 percent in 2021, unemployment in the Palestinian territories remained high, at 24.4 percent in 2022. However, the overall rate masks a wide regional divergence; unemployment in the West Bank was 13.1 percent in 2022, while in Gaza it was 45.3 percent.

4. **Climate-related risks are also a growing concern for the territories' future.** The West Bank and Gaza's geographic location in the Eastern Mediterranean region, coupled with its arid climate, makes it particularly vulnerable to the impacts of climate change. Rising temperatures, changing rainfall patterns, and increasing frequency and intensity of extreme weather events such as droughts and floods are some of the major risks that the territories face. It is projected that by the end of this century, a warming ranging from 1.8 to 5.1 C is likely; annual precipitation rates are likely to decrease by 10 percent in the 2020s, and 20 percent by 2050, which will increase the risk of summer droughts.[2] These risks can have serious implications for agriculture, water availability, and public health, and can also exacerbate existing socioeconomic and political tensions in the region.

Sectoral and Institutional Context

5. **There is a significant shortage of employment opportunities, and a lack of the skills needed by the private sector in the Palestinian territories.** As of 2022, about a quarter of the population is unemployed, and the supply of labor exceeds market demand, particularly among youth. Young women (ages 15-24 years) are among the most affected, with 69 percent unemployment, compared to young men at 21 percent (WDI 2021). Furthermore, there is a shortage of quality employment opportunities, and a strong skills mismatch between labor supply and demand further reduces the possibility of employment, especially for youth.

6. **The private investment and private sector activity that would be needed to fuel job growth have remained at suboptimal levels and are concentrated mainly in low productivity subsectors with weak employment growth.** Private investment has averaged only 15 to 16 percent of GDP[3] in recent years, while foreign direct investment (FDI) averaged only 2.1 percent of GDP as of March 2022. Most formal enterprises are at the micro or small end of the firm-size spectrum. (Only 1 percent of establishments had 20 or more workers in 2021.)[4]

7. **Firms face significant barriers to investment.** According to the 2019 Enterprise Survey,[5] 47.4 percent of all private sector firms pointed to instability as the most significant obstacle to their activity and to making investments, versus a regional percentage of 28.7 for the Middle East and North Africa (MENA). The second biggest obstacle is access to finance. Only 14 percent of Palestinian firms are able to access finance and have a bank loan/line of credit, compared to a regional percentage of 29.4 percent. Only 5.4 percent of investments by firms are financed by bank financial services, while 89.6 percent of the investments are self-financed. This situation further worsened with the several shocks that took place during the last few years, including the closures and disruptions to the supply chains that ensued from the COVID-19 pandemic, and the increased restrictions of goods and services that followed the conflict in Gaza in May 2021.

8. **Limited private investment growth, and the resulting suppressed demand for private sector labor have been accompanied by constraints on the supply side.** The evidence shows that even where there are available job openings, graduates often lack the skills or practical experience needed by the private sector to effectively compete

[2] https://reliefweb.int/report/occupied-palestinian-territory/climate-change-profile-palestinian-territories
[3] CEIC data.
[4] https://www.state.gov/reports/2022-investment-climate-statements/west-bank-and-gaza/
[5] https://www.enterprisesurveys.org/content/dam/enterprisesurveys/documents/country-profiles/West-Bank-and-Gaza-2019.pdf

for and fill the available jobs. A study of the Palestinian Economic Policy Research Institute (MAS) on skills shortage and gaps in the industrial sector in the Palestinian territories[6] points out the existing lack of skills available in the labor market. Also, a World Bank report on Job Opportunities for Palestinians[7] indicated that Palestinian youth are well-educated, creative, and tech-savvy, but the lack of job opportunities is making them increasingly frustrated and risking the possibility of turning this great asset into a liability. To avoid that, more and better job opportunities need to be generated in the private sector; but dedicated efforts are also needed to help connect youth to existing job opportunities and reduce barriers to female employment.

9. **In this context, gender barriers are significant.** The majority of Palestinian women are highly educated, yet labor market outcomes for women continue to be a significant challenge, with notable regional disparity. Despite the higher share of women in tertiary education, only 17 percent of women participate in the labor force compared to 70 percent of men (PCBS 2021) Labor Force Survey Annual Report). This rate is low even by MENA standards, where the average is only 22 percent. Women who do participate in the labor market face high levels of unemployment. Forty percent are unemployed, compared to 23 percent of men, with a large disparity between the West Bank and Gaza (PCBS 2021). Palestinian women are also largely absent from decision-making roles, with less than one in five female workers holding positions in management or leadership.[8]

10. **Gender gaps in entrepreneurship are also concerning, with only one percent of firms having majority female ownership and/or women as top managers.** Furthermore, women-owned businesses, globally, faced a large setback in 2020-21. The impact of COVID-19 and the Gaza conflict in May 2021 have further exacerbated inequities, even though World Bank engagement on gender in the West Bank and Gaza has been steadfast, or even intensified over the years. However female-owned businesses have become more vulnerable, with fewer assets to start with. Studies show that 95 percent of Palestinian women reported that their businesses were affected by COVID-19, and 27 percent of women-owned businesses shut down.[9]

11. **The removal of these barriers, reduction of unemployment, and private sector-led growth are central to the socioeconomic future of the West Bank and Gaza.** To address some of these barriers and to narrow the current separation between the public and private sectors in the West Bank and Gaza, the World Bank has been investing in operations that have helped the private sector to lead and co-finance a more collaborative, output-based approach. To this extent, the World Bank introduced the Finance for Jobs (F4J) Series of Projects (SOP), of which the proposed project is the third operation (F4J III). In a SOP programmatic approach, a series of projects are designed for implementation over time, building on lessons learned and achievements from previous projects in the series. The F4J SOP commenced with a first project (F4J I; P151089), which closed satisfactorily on January 31, 2022.[10] It was followed by a second project (F4J II; P159337), which is currently under implementation, and which is showing positive results in stimulating private-sector-led investments, supporting youth and women employment.

[6] https://mas.ps/cached_uploads/download/migrated_files/20192207125413-1-1640017452.pdf
[7] https://documents1.worldbank.org/curated/en/523241562095688030/pdf/West-Bank-and-Gaza-Jobs-in-West-Bank-and-Gaza-Project-Enhancing-Job-Opportunities-for-Palestinians.pdf
[8] PCBS (2021) shows that the share of women in management positions in government (A4 and above) is 14 percent.
[9] CGAPIII draft (forthcoming).
[10] See ICR of F4J I (P151089) for a summary of results: https://documents.worldbank.org/en/publication/documents-reports/documentlist?keyword_select=allwords&srt=score&order=desc&qterm=ICR5644&lang_exact=

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

To sustain and expand the scope of the innovative financial instruments tested under F4J I & II, to incentivize private investment mobilization and job creation.

Key Results

12. **The F4J III project is proposed as the third project within the F4J SOP.** Building on the results of the first and second F4J projects, the key PDO-level results that will be measured in this third project include:

- **Mobilization of private capital**: This indicator will be measured under F4J III as a key PDO level indicator. It will encompass the total private investment mobilized as a result of the instruments that will be financed.

  This indicator has achieved highly satisfactory results under the previous operations of the SOP, confirming the appetite of the private sector to invest if risks are manageable, and to test innovative financial instruments once the soundness and validity of the investments is clear, even in FCV contexts. This indicator is key for F4J III since it is the indicator most apt to capture the participation of private capital and will confirm private sector interest in sustaining and expanding the scope of the tested financial instruments; this is important also for the learning nature of the SOP.

- **Creation of employment opportunities:** Job opportunities are expected to be generated as a result of each of the financing instruments that will be financed; these opportunities will also be disaggregated in terms of women and youth. The indicator is relevant to capture one of the main goals of the SOP, which is job creation, and to provide elements and lessons useful for other projects.

13. **Learning and knowledge generation will continue to be a highly important outcome of the F4J SOP and will be captured in the Results Framework**. Furthermore, the two PDO indicators along with the intermediate indicators of the Results Framework will assess the results only of F4J III, not of the overall SOP.

D. Project Description

14. **The F4J III project will build on the implementation of two innovative financing instruments that seek to mitigate constraints that can have a significant impact on private investment and generation of job opportunities, from both the demand and the supply sides of the jobs challenge.** These instruments are:

- A Development Impact Bond (DIB) (Component 1) that will mobilize private sector financing, and technical and management expertise for enhancing skills development and employment outcomes among youth and women.
- An Investment Co-Financing Facility (ICF) (Component 2) that will provide risk-sharing, grant-financed support for commercially sound job-creating private sector investments that may otherwise not be considered viable due to market and institutional failures, and other FCV risk considerations.

15. Based on experience from the COVID-19 pandemic and the Gaza conflict in 2021, these two F4J instruments have been designed and have proven to be highly flexible and resilient in the face of multiple shocks.

16. **The Development Impact Bond (DIB) is a results-based financing tool designed to address the high unemployment challenges that cannot be tackled by traditional government-sponsored job and training programs.** A DIB skills development program has already been set up and is currently being successfully implemented under F4J II. Under F4J III, the DIB component will continue to build on the existing structure while further pushing the envelope by targeting beneficiaries beyond unemployed youth, providing a wider range of employment services and expanding to Gaza. This component aims to achieve sustained employment for: i) unemployed youth (aged 18-25 years); ii) beneficiaries above 29 with special circumstances (including women returning to the job market after being out of the labor force); iii) marginalized populations, including beneficiaries in the Gaza Strip; and iv) underemployed beneficiaries.

17. One of the key features of the DIB component is to leverage private investments to pay the upfront working capital needed for service providers to deliver employment programs, which will ultimately lead to job creation and sustained employment. This is different from the traditional model, where such intervention is usually financed by donor funding. The upfront funding by investors ensures that risks are transferred to them and that they will be incentivized to achieve targeted results to obtain their return on investment.

18. **The second component, the Investment Co-Financing Facility (ICF), will continue financing a risk-sharing grant in support of commercially sound, job-creating private sector investments (ICF subprojects) through the ICF. Private sector investors will be encouraged to submit proposals for ICF support.** The Project Implementation Agency (PIA) will conduct due diligence on each planned investment, assessing its commercial viability, compliance with safeguards, alignment with the West Bank and Gaza nationally determined contributions (NDCs), and potential Social Rate of Return (SRR), which reflects its job-creation effects. The ICF component can be rolled out very quickly and has a considerable pipeline of to-be-supported projects. Finally, under F4J III, the ICF will incorporate lessons learned based on previous experiences.

19. Finally, F4J III will finance a project management component and a small amount of unallocated funds to be deployed to the components during project implementation as need arises.

Legal Operational Policies

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

Summary of Assessment of Environmental and Social Risks and Impacts

20. **F4JIII is expected to have overall positive environmental and social (E&S) impacts,** including skills development and enhanced employment for people in the workforce, particularly women and youth, and promotion of the green economy. The project is assessed as having "substantial" environmental impacts. The key environmental risks under ESS1 include construction and related risks under Component 2 (construction waste, air pollution, noise, health and safety of workers) and operation related risks, including air pollution from operation of machinery, potential pollution and health risk related to the generation of hazardous and nonhazardous solid waste, e-waste, generation and

improper management of domestic and industrial wastewater, and improper management of pesticides as addressed under ESS3, as well as potential impact on biodiversity conservation, as addressed under ESS6. Occupational health and safety risks related to the construction/rehabilitation and operation are addressed under ESS2. Further to occupational health and safety, there are life and fire-safety risks related to the on-the-job and vocational training activities under the DIB component.

21. **The social risk is assessed as "moderate."** The project will not result in any risks related to involuntary resettlement, and any land requirements (temporary or permanent) for project-related investments will be met through lands that are owned by the state or by private companies. Any subprojects that may involve relocation of households, temporary or permanent land take, or impacts on livelihoods will be excluded at the subproject screening stage. The social risks are limited in nature and scale, and can be summarized as follows: i) risk of social exclusion or inequitable access for comparatively more marginalized categories within these groups (persons with disabilities, women-headed households, the poor, people in Area C, Bedouin communities, communities in Access Restricted Areas (ARAs), and relatively rural/remote locations etc.) to project benefits; ii) labor and working conditions; and iii) community health and safety issues. The SEA/SH risk has been determined as "moderate" using the Bank's SEA/SH risk screening tool for civil works, and based on information received during consultations. Mitigation measures, proportionate to the level of risk, will be included in E&S instruments and the design of activities.

22. **The E&S risks and impacts have been assessed, and requisite mitigation measures have been included in the project's E&S instruments,** including an Environmental and Social Management Framework (ESMF) and Stakeholder Engagement Plan (SEP). The ESMF and SEP have been prepared by the PIA and consulted on (1-2 March 2023) and reviewed, cleared, and publicly disclosed by the World Bank. Stand-alone Labor Management Procedures (LMPs) will also be prepared and publicly disclosed by one month of project effectiveness to address labor management related risks. Commitments to implement the project in accordance with the requirements of the Bank's ESF have been included in the project's Environmental and Social Commitment Plan (ESCP). Finally, additional measures to enhance inclusion of vulnerable groups and address gender-based violence (GBV)/SEA/SH risks will also be addressed through the design of project interventions/activities.

23. **The PIA will engage an Environmental and Social Officer (ESO) who will be responsible for the overall management of the project's E&S requirements.** These commitments have been included in the ESCP. The Bank's in-country and MENA regional teams will continue to provide support and capacity building to further strengthen compliance with the ESF.

24. **Functioning grievance mechanisms (GMs), with special features for addressing SEA/SH related complaints, are in place for both project beneficiaries and workers.** These GMs were developed under the F4J II project and will also be used for F4J III. Details of the GMs are included in the project SEP; further details of the workers' GMs will be included in the LMP. Commitments to ensure that both beneficiary and workers' GMs remain operational throughout the project are included in the ESCP.

E. Implementation

Institutional and Implementation Arrangements

25. **The F4J III implementation arrangements will follow the model of the implementation arrangements of F4J I and II.** The MOF remains the formal project counterpart and will provide strategic oversight and engage with key reform agendas, while the overall management of the various project components will be the responsibility of DAI—the private sector firm that was selected to be the PIA under F4J I and F4J II. The PIA includes a specialized management

team for the ICF, and specialized experts for the DIB. Under F4J III, the capacity of MOF for greater cooperation and partnerships with the private sector will be further enhanced and strengthened through targeted capacity building activities.

26. **In support of the overall implementation arrangements, the Public-Private Advisory Body (PPAB), comprised of key government counterparts from MOF, the Ministry of the National Economy, and the Ministry of Labor, together with representatives from the financial and private sector established under F4J I and F4J II, will continue their advisory and coordination functions in the project's overall structure**. PPAB does not hold any decision-making authority over the project, including the selection of recipients of financing made available under the project; however, it can advise and provide feedback on the project's progress. PPAB has a direct link to the PIA, and plays an important advisory and strategic guidance role within the F4J project with respect to new ways for the public and private sectors to tackle employment and private investment challenges. Furthermore, it promotes policy dialogue, knowledge exchange, and thought leadership on issues of job creation and private sector growth. The PPAB is chaired by the Minister of Finance and it meets semiannually.

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