FOR OFFICIAL USE ONLY

Report No: PAD5394

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

PALESTINE LIBERATION ORGANIZATION

FOR A

FINANCE FOR JOBS III PROJECT

September 7, 2023

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

CURRENCY EQUIVALENTS

Exchange Rate Effective July 31, 2023

Currency Unit =	Israeli New Sheqalim (ILS)
ILS1.00 =	US$0.27
US$1.00 =	ILS3.72

FISCAL YEAR
January 1 - December 31

Regional Vice President:	Ferid Belhaj
Country Director:	Stefan W. Emblad
Regional Director:	Nadir Mohammed
Practice Manager:	Irina Astrakhan
Task Team Leader(s):	Abdalwahab Khatib, Wenye Dong

ABBREVIATIONS AND ACRONYMS

ALMP	Active Labor Market Program
AM	Accountability Mechanism
ARA	Access Restricted Area
BDS	Business Development Services
CBA	Cost/Benefit Analysis
CCDS	Climate Change and Disaster Screening
CGE	Computable General Equilibrium
DA	Designated Account
DCE	Discrete Choice Experiments
DIB	Development Impact Bond
EBRD	European Bank of Reconstruction and Development
ERR	Economic Rate of Return
E/S	Environmental/Social
ESCP	Environmental and Social Commitment Plan
ESMF	Economic and Social Management Framework
ESO	Environmental and Social Officer
FCI	Finance, Competitiveness and Innovation
FCV	Fragility, Conflict and Violence
FDI	Foreign Direct Investment
F4J	Finance For Jobs
FM	Financial Management
GA	Grant Agreement
GBV	Gender-Based Violence
GDP	Gross Domestic Product
GIE	Gaza Industrial Estate
GCRF	Global Crisis Response Framework
GM	Grievance Mechanism
GRS	Grievance Redress Service
IA	Implementation Agreement
IBRD	International Bank for Reconstruction and Development
ICF	Investment Co-Financing Facility
ICR	Information Completion Report
ICT	Information and Communications Technology
IFC	International Finance Corporation
IFR	Interim Financial Report
IRR	Internal Rate of Return
IPSAS	International Public Accounting Standards
ISP	Internet Service Provider
IVA	Independent Verification Agent
KPI	Key Performance Indicator
LMP	Labor Management Procedures
M&E	Monitoring and Evaluation

MAS	Palestinian Economic Policy Research Institute
MIGA	Multilateral Investment Guarantee Agency
MENA	Middle East and North Africa
MOF	Ministry of Finance
NDC	Nationally Determined Contributions
NDP	National Development Plan
NPA	National Policy Agenda
MSME	Medium, Small and Micro Enterprises
OC	Outcome Contract
PA	Palestinian Authority
PCM	Private Capital Mobilized
PEA	Palestinian Engineering Agency
PIA	Project Implementation Agent
PIF	Palestine Investment Fund
PDO	Project Development Objective
POM	Project Operations Manual
PPAB	Public/Private Advisory Board
PPP	Purchasing Power Parity
PPSD	Project Procurement Strategy for Development
PV	Photovoltaic
ROI	Return On Investment
SCBA	Social Cost/Benefit Analysis
SDO	Semilla di Olivo
SEP	Stakeholder Engagement Plan
SOP	Series of Projects
SP	Service Provider
SPV	Special Purpose Vehicle
SRR	Social Rate of Return
STC	Short Term Consultants
TA	Technical Assistance
TOC	Theory of Change
TOR	Terms of Reference
TTL	Task Team Leader
TVET	Technical and Vocational Education and Training
USAID	United States Agency for International Development
WA	Withdrawal Application
W-SME	Women’s Small and Medium Enterprise

TABLE OF CONTENTS

DATASHEET

BASIC INFORMATION

Project Beneficiary(ies)	Operation Name		
West Bank and Gaza	Finance for Jobs III		
Operation ID	**Financing Instrument**	**Environmental and Social Risk Classification**	
P179801	Investment Project Financing (IPF)	Substantial	

Financing & Implementation Modalities

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

Expected Approval Date	Expected Closing Date
02-Oct-2023	22-Dec-2028
Bank/IFC Collaboration	
No	

Proposed Development Objective(s)

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

Components

Component Name	Cost (US$)
Development Impact Bond	6,300,000.00
Investment Co-Financing Facility	6,100,000.00
Project Management	2,100,000.00
Unallocated	500,000.00

Organizations

Borrower:	Palestinian Ministry of Finance
Implementing Agency:	DAI

PROJECT FINANCING DATA (US$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)?	Yes
Is this project Private Capital Enabling (PCE)?	Yes

SUMMARY

Total Operation Cost	**15.00**
Total Financing	**15.00**
Financing Gap	**0.00**

DETAILS

Non-World Bank Group Financing

Trust Funds	15.00
Special Financing	15.00

Expected Disbursements (US$, Millions)

WB Fiscal Year	2024	2025	2026	2027	2028	2029
Annual	0.19	2.70	5.14	4.80	2.00	0.17
Cumulative	0.19	2.89	8.03	12.83	14.83	15.00

PRACTICE AREA(S)

Practice Area (Lead)

Finance, Competitiveness and Innovation

Contributing Practice Areas

SYSTEMATIC OPERATIONS RISK- RATING TOOL (SORT)

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

POLICY COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

[ ] Yes [✓] No

Does the project require any waivers of Bank policies?
[ ] Yes [✓] No

ENVIRONMENTAL AND SOCIAL

Environmental and Social Standards Relevance Given its Context at the Time of Appraisal

E & S Standards	Relevance
ESS 1: Assessment and Management of Environmental and Social Risks and Impacts	Relevant
ESS 10: Stakeholder Engagement and Information Disclosure	Relevant
ESS 2: Labor and Working Conditions	Relevant
ESS 3: Resource Efficiency and Pollution Prevention and Management	Relevant
ESS 4: Community Health and Safety	Relevant
ESS 5: Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
ESS 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources	Relevant
ESS 7: Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
ESS 8: Cultural Heritage	Not Currently Relevant
ESS 9: Financial Intermediaries	Not Currently Relevant

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

Legal Covenants

Sections and Description

Conditions

Type	Citation	Description	Financing Source
Disbursement	Condition-4	No withdrawal shall be made under Category 1, unless an Independent Verification Agent	Trust Funds

		confirms, in writing: (i) Outputs and Outcomes that have been achieved; and (ii) the amount of DIB Payments due, based on the value assigned to the Outputs and Outcomes Tariffs and agreed upon in the Performance and Funding Agreement. Such confirmation will be subject to Bank's prior approval.	
Effectiveness	Condition-3	The Operational Manual, acceptable to the Bank has been amended by the PIA to incorporate the specificity of the Project one month after the project is declared effective.	Trust Funds
Effectiveness	Condition-2	The Implementation Agreement to the Legal Agreement has been amended to incorporate the specificity of the Project.	Trust Funds
Effectiveness	Condition-1	The Subsidiary Agreement between the Recipient and the Palestinian Authority has been executed on behalf of the Recipient and the Palestinian Authority.	Trust Funds

I. STRATEGIC CONTEXT

A. 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 sources of growth. Taken together, these FCV drivers significantly constrain 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 exacerbate 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, 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 three 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. **During 2022, the Palestinian economy continued to rebound from the shock of the COVID-19 pandemic, though the rate of recovery slowed compared to the recovery in 2021.** The real GDP growth rate in the Palestinian territories fell from 7.1 percent in 2021 to 3.6 percent, year-on-year (y-o-y), in 2022. The easing of COVID-related measures allowed the economy to expand driven by consumption, which in turn prompted the growth of the wholesale and retail trade sector, as well as services. The increase in the number of Palestinians working in Israel and the settlements have also aided the recovery, as the average daily wage of these workers is more than twice as high as that paid in the Palestinian territories, implying a larger impact on aggregate demand. Nevertheless, economic output remained almost two percent below its pre-pandemic level at the end of 2022. The recovery is expected to slow down further, with the rate of population growth matching nominal growth, causing per capita economic growth to stagnate in 2023 and beyond as the Palestinian economy lacks sustainable sources of growth.

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

4. **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 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.

5. **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. Supporting climate-smart agriculture and improved food logistics, as well as increasing the skills of the labor force to adapt to climate change can be important steps in mitigating the negative effects of climate change.

B. Sectoral and Institutional Context

6. **The West Bank and Gaza have simultaneously a significant shortage of employment opportunities, and a lack of the skills needed by the private sector.** 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 which makes it difficult for firms to find the talent they need to be competitive and grow. This further constrains job creation, which disproportionally affects the many youths coming into the labor market every year.

7. **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]

8. **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

[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

a bank loan/line of credit, compared to a regional percentage of 29.4 percent, with the following breakdown by size of firms: 13 percent are small, 18.8 percent medium, and 27.5 percent large firms. 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.

9. **According to the COVID-19 Business Pulse Survey 2020[6], 39 percent of the surveyed institutions reported that to deal with cash flow shortages, they were forced to delay payments to suppliers or employees, and 36 percent borrowed from friends, family, and relatives.** In addition, according to International Finance Corporation (IFC) research in 2022 on mobile banking, only 9.3 percent of medium, small, and micro enterprises (MSMEs) borrowed from any financial institution in the West Bank and Gaza, pointing to low borrowing levels. Understandably, only 38 percent of MSMEs feel that commercial banks help to meet liquidity requirements; 26 percent feel that there is no advantage to using commercial banks over other sources of finance. Collateral requirements, burdensome documentation requirements, and time and interest costs are key barriers to receiving bank loans.[7]

10. **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 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[8] points out the existing lack of skills available in the labor market. Also, a World Bank report on Job Opportunities for Palestinians[9] 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.

11. **While many women are highly educated, gender barriers to labor market participation and employment 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.[10]

12. **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

[6] PCBS: COVID-19 Business Pulse Survey in West Bank and Gaza (March-May, 2020), which aimed to assess the dynamics of the impacts of COVID-19 on small, medium, and large institutions in West Bank and Gaza
[7] West Bank and Gaza: Opportunities for Mobile Banking in an Emerging Ecosystem. IFC, February 2022.
[8] https://mas.ps/cached_uploads/download/migrated_files/20192207125413-1-1640017452.pdf
[9] 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
[10] PCBS (2021) shows that the share of women in management positions in government (A4 and above) is 14 percent.

setback in 2020-21. The impact of COVID-19 and the Gaza conflict in May 2021 have further exacerbated inequities as 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.[11]

13. **The removal of gender barriers, reduction of unemployment, and private sector-led growth are central to the socioeconomic future of the West Bank and Gaza.** The PA—constrained by fiscal and other institutional priorities—is looking for ways to foster more private sector participation and move away from the public sector to supply-driven and largely donor-financed initiatives. The private sector, for its part, is seeking modalities to engage in tackling the political and economic challenges, in both shaping and financing solutions. To further 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.

14. **In particular, 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.[12] 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 employment, and addressing some gender barriers.

C. Relevance to Higher-Level Objectives

15. **The proposed project and the whole SOP are fully aligned with the following objectives of the FY22-25 Country Assistance Strategy: Objective 1.3 (Achieve Better Human Development Outcomes) and Objective 2.1 (Stimulate Inclusive Private Sector Development and Diversify Financial Products.)** Regarding Objective 1.3, Filter 2 considers it a high priority "to invest in human capital and to enhance the capacity of the workforce with particular focus on youth and women for better job opportunities." F4J III finances interventions in line with this priority since they involve a range of beneficiaries that include the Palestinian labor force, particularly youth ages 18–29; women; and people living in particularly remote or disadvantaged areas. F4J III is also strictly aligned with Objective 2.1, since testing the effectiveness of financial interventions supports the diversification of financial products that aim to contribute to firm capability enhancement and competitiveness and mobilizing private capital. F4J III also finances transformative, job-creating investments that benefit private sector enterprises.

16. **The proposed F4J III and the SOP are also closely aligned with the World Bank Group's Middle East and North Africa (MENA) Expanded Strategy (2021), which promotes human capital development, supports jobs and transformation.** Specifically, F4J III builds on the priorities of strengthening the regions' human capital and promoting sustainable business growth and job creation through a more resilient private sector. Along these lines, F4J III also contributes to the World Bank Jobs and Economic Transformation Agenda.

17. **The F4J III project and the SOP are also closely aligned with the World Bank Gender Strategy (FY16–23) and**

[11] CGAPIII draft (forthcoming).
[12] 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=*

the Bank's FCV Strategy. F4J III contributes directly to two of the Gender Strategy's objectives: (i) improving women's access to more and better jobs; and (ii) removing barriers to women's ownership of and control over assets. The proposed project is also aligned with the Country Framework on Gender for the West Bank and Gaza. The project aims to contribute to an inclusive economy with fewer barriers to women's involvement. Furthermore, it is aligned with the World Bank's FCV Strategy, which stresses the importance of helping countries to address the drivers and impacts of FCV, and of strengthening resilience, especially for the most vulnerable and marginalized populations.

18. **The project and the whole SOP are also consistent with the 2021-23 National Policy Agenda (NPA) of the Palestinian Authority.** The project supports the NPA priority of economic independence, since this will help build the future Palestinian economy, create jobs, and promote industry. The project also supports the National Development Plan (NDP) goal of sustainable development through improving the business environment (Subitem 15); and supporting gender equality and women's empowerment (Subitem 20).

19. **The project is consistent with the West Bank and Gaza's Nationally Determined Contributions (NDC) and supports the National Adaptation Plan to climate change.** In the latest NDC submitted to the United Nations Framework Convention on Climate Change (UNFCCC), the State of Palestine commits to reducing its greenhouse gas emissions by 17.5 percent by 2030 under a status quo scenario on mitigation and enhancing resilience through adaptation measures in sectors such as industrial processes, agriculture, and waste management. The National Adaptation Plan, developed in 2016, identified 12 most vulnerable sectors, including agriculture, water, food, and industry. The West Bank and Gaza intends to develop and implement adaptation measures, such as promoting drought-resistant crops, replacing imported raw materials with local materials, and improving health systems' capacity to respond to climate-related diseases as well as ensure food security. Additionally, the NDC acknowledges the need for international cooperation and financial support to achieve these goals. Based on updated NDCs, the estimated total cost of achieving the NDC targets is US$5.9 billion, of which PA intends to invest around US$3.2 billion through its own means, leaving the funding gap at US$2.7 billion. Almost 70 percent of WB&G's funding gap comes from energy, agriculture, and transport sectors.

20. **The proposed project will support the achievement of the objectives of the National Adaptation Plan and NDCs.** Namely, the project will work, where possible, in the 12 priority sectors indicated in NAP, potentially supporting climate-smart agri-food businesses, and improving domestic food production, as well as raising capacity and the use of local materials in the industrial sector. The project is also consistent with the NDC mitigation objectives: the eligibility criteria used under project financing will help ensure that investments do not undermine West Bank and Gaza's decarbonization pathway.

21. **Finally, the project is also aligned with the West Bank and Gaza Country Climate and Development Report (CCDR).** Specifically, by providing incentives to the private sector to scale up climate-friendly business practices under the ICF. Grantees under the component could include but are not limited to the recommendations of the CCDR, such as encouraging drought-tolerant crops, promoting high-value crops with water-saving technologies, fostering crop diversification, adjusting planting and harvesting dates, implementing digital infrastructure for cities, and pivoting towards a circular economy with waste minimization, recycling, and recovery/treatment solutions.

II. PROJECT DESCRIPTION

22. **The proposed F4J III is part of a programmatic framework (SOP) that has been chosen given: (i) the novelty and the innovation of the tested instruments and the challenges of the FCV setting; and (ii) the possibility that an SOP approach provides the opportunity to address market failures by building on lessons learned and achievements from previous projects in the series.** The first project (F4J I) undertook the upstream detailed design, capacity building, and beginning of the testing of selected innovative financial instruments, along with generating initial lessons learned[13] while F4J II is financing full testing and implementation of the selected financial instruments. The third operation (F4J III) will primarily provide for continuing and expanding the scope of intervention of two specific financial products. The project will also further build the institutional capacity of the Ministry of Finance (MOF) to implement operations and negotiate with the private sector. Table 1 provides an overview of the key activities of instruments, and the phasing of F4J I, F4J II, and F4J III.

[13] Ibidem

Table 1: Overview of F4J I, II, and III: Key Activities, Results and Phasing				
	Targeted Market Failures	**F4J I**	**F4J II**	**F4J III**
Development Impact Bond	- Supply-side skills mismatch for existing and future job openings - Input-driven interventions with weak performance incentives - Disconnect with private sector demands and weak coordination - Significant gender barriers to employment	**Activities and Results:** - Capacity building and market readiness activities for DIB 1.0, including detailed design work - Hiring of key DIB contracts - Structuring governance and implementation arrangements - Attracting investors to participate in the DIB	**Activities and Results:** - Launching of the DIB - Delivery of intervention (skills development, intermediation services, and job placement) of DIB 1.0 through 9 service providers for 13 programs in several sectors - Verification of outputs/outcomes, with 1,108 people participating in the program so far and 508 employed, of which 203 women - Deploy first round of financing for output/outcome payments to private investors - Under F4J II, the World Bank team is conducting a DIB impact assessment	**Activities and Results:** - Scale up of an existing DIB instrument - Expand the area of the DIB program from the West Bank to include Gaza - In addition to technical training, expand the scope of employment services to include more tailored services such as mentoring, coaching, job intermediation, on-the-job training, etc. - Expand the targeting of DIB beneficiaries to include other socially disadvantaged groups I.e. people above 29, marginalized groups, women, at-risk youth and others, etc. - Expand the delivery of the program to also include underemployed population - More streamlined procedures for verification - Expansion to more employment sectors - More efficient delivery, more targeted beneficiaries with lower estimated cost per job
Investment Co-Financing Facility	- Weak private sector investment due to high-risk environment - Lack of new jobs created to keep pace with new entrants - Lack of instruments to mitigate market and political risk - Lack of long-term financing - Inability to measure social externalities from job creation	**Activities and Results:** - Building of pipeline, including 9 feasibility studies for an initial pipeline of potential investments conducted - SCBA methodology development and testing for assessing and shortlisting projects - Structuring of governance, due diligence, and implementation arrangements	**Activities and Results:** - Financing of first mover investment in Gaza together with ICF - Additional ICF investments depending on availability of funds; 14 agreements as of May 2023, and $54.4 million in private capital mobilized	**Activities and Results:** - Additional ICF investments depending on availability of funds - Introduce additional selection criteria to support W-SMEs as well as climate mitigation/adaptation - Provision of Technical Assistance (TA) to potential ICF beneficiaries and to MOF
Entrepreneurship Ecosystem Matching Grant	- Few startups surviving past the seed stage - Weak pipelines - Weak ecosystem links between financing and BDS	**Activities and Results:** - Setup of competitive fund and eligibility criteria at PIA - Deployed $1.2m in matching grants mobilizing $ 8.44m in private capital, overachieving its initial target - Generation of 209 jobs, of which 42% (87 jobs) for women - Benefitted 30 enterprises - COVID-19 Rapid Response program launched which supported the retention of 143 jobs, of which 33% (47 jobs) for women - Benefitted 27 enterprises	- The instrument achieved satisfactory results under F4J I ICR, but it was not funded under F4J II due to shifts in the Palestinian startup ecosystem	-- Not financed

BDS= Business Development Services DIB= Development Impact Bond ICF= Investment Co-Financing Facility PIA= Project Implementation Agent SCBA= social cost/benefit analysis

A. Project Development Objective

PDO Statement

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

24. The PDO of F4J III is consistent with the overarching development objective (DO) supported by the F4J SOP: "To mobilize private investment financing in high potential sectors and generate job opportunities for the West Bank and Gaza." In this framework, the addition of F4J III will bring to maturity the tested financial instruments and will expand their scope.

PDO Level Indicators

25. **The F4J III project is proposed as the third project within the F4J SOP. The series started with a first project (F4J I; P151089) and was complemented by a second project (F4J II; P159337), which is currently under implementation with positive results.** 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 development impact bond (DIB) and of the investment co-financing facility (ICF) financing instruments. This indicator has achieved highly satisfactory results under the F4J II operation, 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 as it will help confirm private sector interest in sustaining and expanding the scope of the financial instruments tested under F4J I and II while contributing to the learning under the SOP.

- **Creation of employment opportunities**: Jobs[14] are expected to be generated as a result of each of the financing instruments that will be supported under the project, and these opportunities will also be tracked on a disaggregated basis in terms of women and youth. This indicator will help measure one of the main goals of the SOP, job creation, and provide elements and lessons useful for other projects, given the learning nature of the SOP.

26. **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.

[14] The number of jobs created as a result of the two financing instruments (DIB and ICF) and the PDO indicator will include direct jobs created by the DIB and verified through the independent varication agent as well as direct and indirect jobs under the ICF component.

B. Project Components

27. **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 grant-financed support to help de-risk 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.

28. 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. To enhance their resilience and their capacity of quickly addressing emerging challenges, both the instruments will be sector agnostic and will be implemented as demand-driven mechanisms.

Component 1: Development Impact Bond for Skills Development for Employment ($6.3 million)

29. **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.** The West Bank and Gaza have experienced high youth unemployment due to structural issues, including but not limited to lack of job opportunities generated by low levels of private investment, and skills mismatch. The traditional government training and active labor market programs (ALMP) often relied on employment subsidy for job creation, and provided no evidence that these jobs would be sustained after the completion of these programs. There were often other issues associated with these programs as well, including a mismatch of the trainings delivered to the skill sets demanded by the market, the inefficiency of resource allocation and use, over reliance on public budget and lack of long-term financial sustainability, as well as substantial overlapping among training programs, etc. All these factors made the traditional jobs and training programs inefficient and ineffective in achieving the outcome of sustained employment.

30. **Trainings and upskilling under the DIB can also play a crucial role in improving climate resilience and adaptation.** With climate change affecting various sectors of the economy, there is a need for individuals to acquire new skills and knowledge to address the impacts of climate change. In addition to building the capacity of individuals, the DIB can contribute with some of its programs to the goals of the Paris Agreement by promoting the use of low-carbon technologies and supporting the transition to a more sustainable economy. By investing in training and upskilling programs, the DIB can build the skills and knowledge needed to address the challenges posed by climate change and improve overall resilience.

31. **A DIB skills development program has already been set up and is currently being successfully implemented under F4J II.** By the end of March 2023, the DIB has provided tailored, demand-driven employment programs to unemployed youths in the West Bank, and has achieved remarkable results, including accepting 1,138

unemployed youth into the trainings, and securing "verified[15]" employment for 508 youth (without employment subsidies); 40 percent of the beneficiaries are female. These results have provided proof of the concept for DIB as an outcome-based instrument to achieve job outcomes. Key stakeholders, including investors, service providers (SPs), and beneficiaries have experienced much value added through the implementation of DIB (via strengthened capacity, job sustainability, risk transfer, return on investment, etc.), and have requested the continuation and scaling up of the program under F4J III.

32. **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, expanding to Gaza, and delivering more efficiently.** This component aims to achieve sustained employment for i) unemployed youth (aged 18-29 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[16]. The DIB will have an outcome funding size of $6 million to finance a wide selection of employment services including technical and soft skills training, mentoring, coaching, job trials, on-the-job and pre-employment training programs, etc., based on market demand. The component will target approximately 1,250 beneficiaries to participate in the program, with the goal of creating 500-600 jobs, out of which 360-400 jobs will be sustained for more than six months.

33. **The legal structure for the DIB in the form of a locally financed special purpose vehicle (SPV), will be taken over from F4J II, to continue managing funds from impact investors to finance employment services delivered through selected service providers.** Under F4J III, three investors are planning to invest in the DIB component: the European Bank of Reconstruction and Development (EBRD); the Palestine Investment Fund (PIF); and Semilla de Olivo (SDO). Investors play an important role in the structure of DIB by providing upfront funding for the service provider to finance the project. If the outcomes are achieved and verified, investors - through the SPV- will receive payment based on a tariff for each of the agreed upon outputs and outcomes, which covers the cost of the service, plus a return that reflects the risk the investors are taking. This return is contingent upon the SPV achieving a minimum number of jobs, i.e. success rate, otherwise, investors would make a financial loss. The F4J III DIB aims to achieve lower overhead and transaction costs, since its legal and administrative structure will be taken over from F4J II while the capacity and leadership expertise of the DIB SPV staff and service providers will allow for more rapid mobilization. The cost per job will also be significantly reduced, as reflected in the reduced tariffs based on the abovementioned efficiencies. Results on program activities will be reported by the service providers periodically. Once the results are verified by the independent verification agent, Development Alternatives Incorporated (DAI), which is the agency implementing the project on behalf of the Ministry of Finance, will serve as the outcome funder (with World Bank funding), to pay back both the initial investment amount, plus a risk premium to these investors. The DIB will be continually monitored via a robust performance management framework that will allow for ongoing course corrections.

34. **Overall, under F4J III, the design of the DIB component will remain largely the same, with some elements being modified to take into account lessons learned from the implementation of F4J II, and stakeholder feedback.** Some of the key lessons learned are summarized below, with details expanded in Annex 3.

---

[15] "Verified" means that the results have been verified by the independent verification agent up to six months after the employment has been achieved, and that no objections were granted by the World Bank.

[16] These are beneficiaries that hold low skilled job and would like to obtain a higher skilled job through skills development program.

- **Beyond technical training.** The DIB component in F4J II focused on technical training. However, feedback shows that such training does not cater to all employers and youths, and in some cases, on the job training would better fit for employer's needs. Under F4J III, the DIB skills training will not be limited to technical training and will also include training in soft skills, on-the-job training, internships, and/or intermediation, etc. to enhance vocational and personal development, cater to employers/beneficiaries' needs and could lead to sustained employment.

- **Beyond unemployed youth.** While the DIB in F4J II was designed to target unemployed youth between 18 and 29, feedback shows that there is significant demand for the program from other underserved populations. Under F4J III, the target group will be broadened to reach these underserved populations, include partnering with WB social protection programs to reach those that suffer from chronic unemployment, those who lost job during the pandemic, underemployed youth, women above 29 who return to the labor market, as well as other marginalized population, etc.

- **Align project preparation timeline with DIB outcome contract negotiation:** The DIB outcome contract is a fundamental contract between DIB SPV and its investors. Its negotiation process is closely linked to the DIB component of F4J III that will be approved by the WB. To avoid any decision gaps, the task team will closely coordinate with the DIB SPV on the outcome contract negotiation. The proposed design for DIB has been discussed and largely agreed upon with the investors. The team will provide feedback to the DIB SPV and any changes will need to be rediscussed and re-agreed upon with the investors and the DIB SPV. A draft outcome contract will then be developed to ensure that formal negotiation for the outcome contract will be completed shortly after the project approval to avoid any implementation lag.

35. **The key changes are summarized in Table 2 below, while detailed changes are discussed in Annex 3.** Finally, the DIB component also provides synergies with the existing World Bank programs in the West Bank and Gaza, especially by bringing private sector investment, and creating incentives for investors to take risks, provide tailored skills development programs in a wider range of sectors (including sectors that are traditionally neglected by donors), and create independently verified, sustainable jobs, as well as develop skilled professionals who will contribute to improved productivity and economic growth.

Table 2 Key Differences in DIB Design F4J III vs. F4J II

Item	DIB (F4J II)	Proposed DIB (F4J III)
Funding Size	$6.25M	$6M[17]
Jobs Target	460 jobs	500-600 jobs
Cost per job	$12-13K	$10K
Target Population	Unemployed youth between 18-29	Unemployed youth between 18-29 and expanded to include: 1) those above 29 2) marginalized populations; and 3) underemployed beneficiaries.
Female Participation	Minimum 30%	Minimum 35%

[17] The DIB outcome funding size is $6m, but in the components table, Component 1 size is $6.3M because it includes the DIB outcome funds ($6M) and the management costs of the DIB ($0.3M).

Geographic target	West Bank only	16% of beneficiaries to be in Gaza,[18] the rest in the West Bank
Services	Technical training	Technical training, combined with more individualized/customized services, including soft skills training, job trials, coaching, mentoring, and on-the-job as well as pre-employment training.
Sector Focus	9 service providers and 13 sub-programs spanning the Health, Education, Engineering, ICT, Furniture, Customer Service, Business, and Finance sectors	Continue working with the existing sectors while exploring new sectors. Requests received from various new sectors include retail, light manufacturing, and construction.

36. **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 as a cost reimbursement grant financing inputs and activities. 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 (RoI). Under F4J III, the DIB component will obtain total investment of between $1.3-1.6 million. Two out of the three investors are private sector investors (PIF, and SDO), while the other one is a multilateral agency (EBRD). Therefore, based on the World Bank PCM methodology, the private capital mobilization will be approximately $1.2m.

Component 2: Investment Co-Financing Facility (ICF) ($6.1 million).

37. **This component will continue financing a risk-sharing grant in support of commercially sound, job-creating private sector investments (ICF subprojects) through the ICF.** The ICF was developed under F4J I and tested under F4J II; it has supported 14 projects as of May 2023 and mobilized about $54.4 million in private capital. The rationale behind the ICF is that there are fundamentally commercially sound private investments in the West Bank and Gaza that are unable to advance to the implementation stage due to the exceptional political risks, the FCV environment, and market failures which among other things limit their financing options, including access to long-term debt financing as well as reduce overall job creation. The ICF also tackles various types of market failures. Past ICF investments have shown the potential to generate significant social and economic benefits by creating formal jobs in remote and rural areas, mitigating negative climate effects, and providing services to underserved segments of the population. Already under F4J II, ICF has helped incentivize private investors to take a greater stake in the Palestinian economy, reduce the risks associated with investing in a challenging political environment, and contribute to economic growth, job creation, and improved living standards in the West Bank and Gaza. The ICF component under F4J III will continue this work, and will include two subcomponents. The first $5.75 million subcomponent will finance ICF investments through grants and

[18] This is an indicative target for Gaza. The actual results may vary depending on the local situation, which will be closely monitored throughout the project implementation period.

their related ICF costs, while the second subcomponent ($350,000) will finance Technical Assistance (TA) i) for ICF applicants; and ii) for the Ministry of Finance.

38. **The ICF proposals will be evaluated based on alignment with strategic objectives, compliance with safeguards, and consideration of social benefits.** 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 World Bank's SRR methodology will be used to determine the social benefits of each investment based on the anticipated number of jobs created, including direct, indirect, and possibly induced jobs. ICF subprojects must obtain a World Bank No Objection before funding can proceed. In cases where viable proposals exceed available funding, priority will be given to investments with the highest projected number of jobs, alignment with World Bank Group strategic objectives, and social benefits. More information on the SRR methodology can be found in Annex 4.

39. **The ICF is also well aligned with existing programs of the World Bank in the West Bank and Gaza**. The ICF grant size will pick up where the Innovative Private Sector Development project (P164412) leaves off (Grant size ceiling: US$350,000) and provides additionality by covering higher environmental and social (E/S) risk categories of investment opportunities in Palestine. This allows ICF to support a broader range of industries and include sectors that are not covered by other activities. In addition, the bigger ticket size of grants provided by ICF picks up where other projects in the World Bank Group portfolio end, providing a unique opportunity for businesses to access financing to grow and expand, while avoiding overlap with other ongoing activities.

40. **The ICF component can be rolled out very quickly and has a considerable pipeline of qualified projects**. The ICF has been tested and is running well under F4J II: this component can build on considerable market demand that is visible from the last round of proposals, where 30 promising projects have been identified out of a pool of 174 eligible applications. Around 35 percent of the pipeline projects are located in Gaza, and 65 percent in the West Bank. They cover manufacturing (50 percent), agribusiness/food processing (35 percent) and other sectors (15 percent), with five potential projects being women-led. Based on the current proposal there is a potential for more than 1,000 jobs and $63 million in private capital mobilized, with a demand of $8 million in grants; this exceeds the current size of the component, which is expected to target around the 10 most socially beneficial and economical viable projects.

41. **Using an innovative Social Returns methodology that was prepared and tested under F4J I, the F4J SOP has been able to support investments across various sectors and geographies in the West Bank and Gaza, proving that ICF is a highly adaptable and resilient tool.** The projects supported by the ICF under F4J II in the wake of the COVID-19 pandemic as well as during the reconstruction efforts after the Gaza conflict in 2021, have tested and confirmed the appetite of the private sector to invest even in the midst of challenging circumstances, and have managed to produce social benefits. In the last call for proposals the PIA received a high number of eligible investment proposals from private sector investors, proving the continued interest and need for the tool in the West Bank and Gaza economy. In accordance with the due diligence approach tested under F4J II, investment proposals have to pass a rigorous process that assesses their commercial viability and their potential for job creation, using the social cost/benefit analysis (SCBA) methodology, which determines the social return of a given investment. The maximum size of ICF grants has been set at 30 percent of total investment size, within the maximum range of up to $2 million to allow for flexibility during project

implementation[19]. However, during F4J II the average grant as share of total investment has been close to 19 percent with the amount averaging $740,000 per investment. Finally, it is expected that under F4J III, based on the World Bank PCM methodology, the projects that will receive ICF financing will contribute to the private capital mobilization for more than $20 million.

42. **Under F4J III, the ICF will incorporate lessons learned and make adjustments based on previous experiences.** One such lesson is the limited number of women's small and medium enterprise (W-SME) applicants and supported projects. So far, the ICF has only supported one W-SME, with a limited number of similar applicants in the pipeline. This indicates a need for increased outreach and promotion as well as specific gender-focused windows to attract more eligible applicants for future rounds of funding. Additionally, the need to align with new strategic priorities of the World Bank Group is crucial for the success and sustainability of the ICF. This includes showcasing climate adaptation and mitigation measures that are supported through ICF grants, which will not only benefit the environment but also contribute to the long-term resilience and economic development of the West Bank and Gaza post-COVID. To this end, the ICF component will:

i) Introduce W-SME-focused application windows

43. To address the limited number of W-SME applicants and supported projects, this component will introduce W-SME-focused application windows. This would allow for more targeted outreach and support for women entrepreneurs and encourage them to apply for ICF grants. Additionally, easing the ticket size for W-SMEs, and easing the selection criteria for the number of jobs created could also increase the number of applications and supported projects. Previous experience has shown that the smaller size of W-SMEs has been one reason for their failing to meet the existing selection criteria.

ii) Introduce a stronger climate focus in the ICF selection process

44. To this end, eligibility criteria will incorporate appropriate measures, where possible, to address climate change- related risks and opportunities. In addition, eligibility criteria for productive investments will include an assessment of alignment with the Palestinian climate change agenda, both mitigation and adaptation, namely the alignment with the NDC, and where feasible climate vulnerability assessments, and the use of the best available technology, energy efficiency, and low-carbon considerations.

45. **One of the lessons learned from previous ICF projects has been that potential investees need support during the application process to ensure compliance with World Bank Group** requirements, and to allow for swift project implementation. This is necessary first of all to create a pipeline of bankable projects, and secondly, to improve the managerial, commercial, production, and operations capabilities of ICF subprojects. Each company can receive up to $30,000 with a cost share of 20 percent. These grants will assist applicant firms with viable and promising concept notes to help expand their business plan, financial modeling, risk analysis and identification of mitigation measures, environmental assessment and safeguards planning, job creation estimates, and procurement strategies in line with World Bank requirements. The TA will establish dedicated resources to help enterprises assess their climate change vulnerability and implement adaptation measures as well. Applicants will contribute their share of the costs first, to demonstrate their ownership and interest in the project; this will be followed by the PIA contribution. The TA subcomponent will also develop and

[19] The grant sizes align with similar donor programs in the WB&G, with the lower ceiling avoiding overlap with existing IBRD programs, and the upper ceiling ensuring that only SMEs are supported and allowing for flexibility and potential cooperation with IFC, as was the case for the first-mover project under the ICF in F4J II

finance training initiatives to strengthen the capacity of the Palestinian MOF for managing and promoting the ICF instrument. This will ensure knowledge transfer of the ICF instrument to the local authorities.

46. **Finally, the ICF strives to ensure that all potential beneficiaries have equitable access to the opportunities offered regardless of their location or background.** Under F4J II, the efforts toward equitable access have resulted in grants being awarded to firms located both in the West Bank and Gaza, and operating in a wide range of sectors. The program has also made a significant effort to reach potential applicants through various communication channels, including online channels and outreach events. Furthermore, the selection process is open and competitive, ensuring that all projects are thoroughly evaluated, and are selected based on their potential for success, social benefits, and impact on the local economy. Overall, ICF's commitment to inclusivity and transparency under F4J II has helped to ensure that a diverse pool of applicants have had the opportunity to receive support and contribute to the economic development of the West Bank and Gaza. The PIA will continue this successful approach under F4J III.

Component 3: Project Management ($2.1 million)

47. **The implementation of F4J is carried out by a private sector consulting firm that was competitively selected as the PIA by the MOF.** The PIA is fully operational, with key staff on board, including a project manager, technical staff, and financial management (FM) and procurement specialists. This component provides funding to support the PIA and potentially other strategic counterparts in addition to the day-to-day operating costs of project management and coordination; monitoring and evaluation (including fiduciary control and oversight); environmental and social safeguard assessments; and preparation of project reports. It will also include the hiring of specialized technical expertise that may be needed for implementation of the DIB and/or the ICF.

48. **Besides the three components, an amount equaling $0.5 million will remain unallocated in case the need arises during project implementation to add funding to the other components of F4J III (DIB and/or ICF, and/or project management).** One lesson learned from previous projects in the SOP is that unallocated funds have enhanced the flexibility of the tested instruments and their adaptation to changing environments, for example increasing needs under the DIB due to better-than-expected results, or adjustments to ICF to support additional recovery and reconstruction efforts. Hence, unallocated funds will be assigned to project activities during project implementation to address unexpected challenges and events as they arise.

C. Project Beneficiaries

49. **Within the Series of Projects (SOP) framework, the overarching development objective (PDO) is "to mobilize private investment financing in high potential sectors and generate job opportunities for the West Bank and Gaza."** For the purposes of the SOP, targeted beneficiaries include: (i) the Palestinian labor force, as the primary direct beneficiaries of job creation, especially youth ages 18–29, women, and the working-age population of more vulnerable FCV settings (for example, Gaza); (ii) private-sector enterprises and service providers; and (iii) the public sector, which will benefit from enhanced dialogue with the private sector and strengthened capabilities for using innovative financing instruments. F4J III aims to target these groups of potential beneficiaries, and also to expand them to the extent possible.

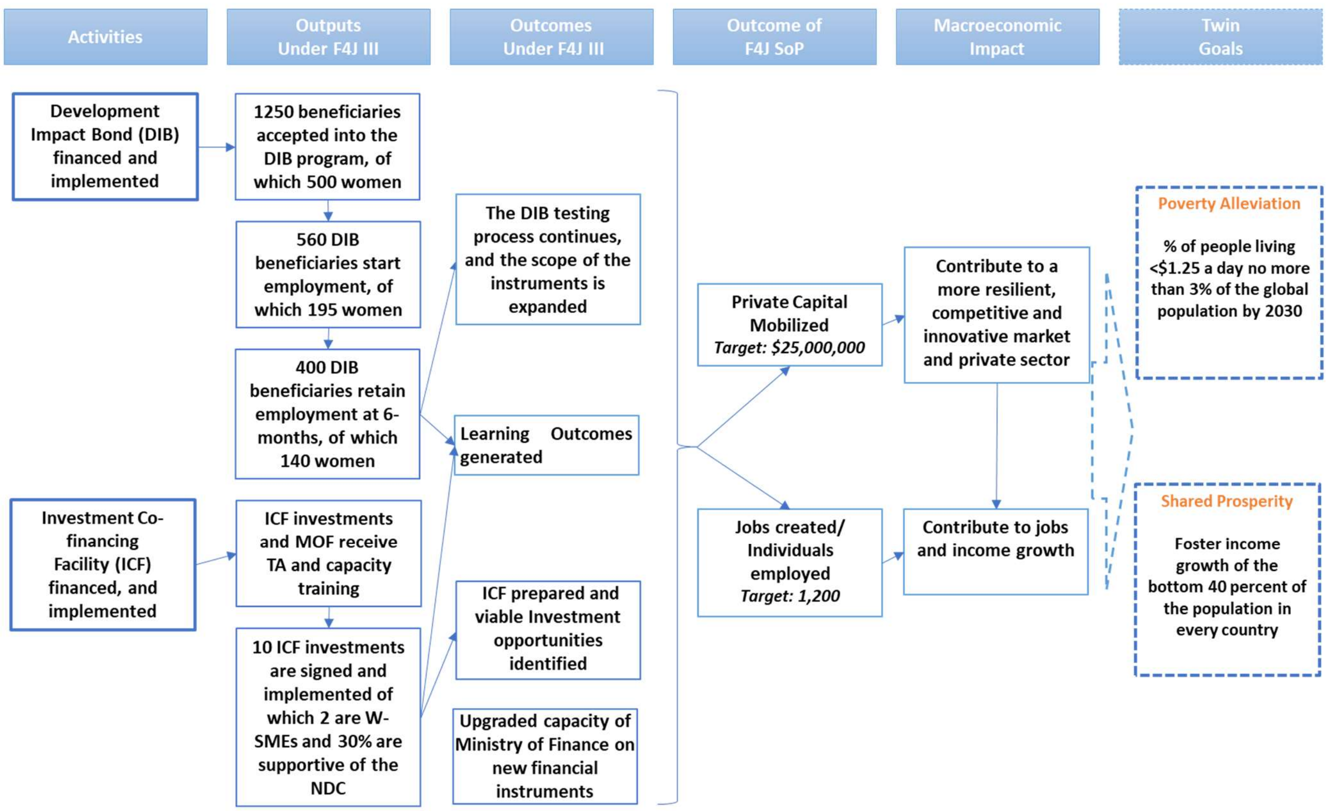
50. **The project interventions aim to create job opportunities for Palestinians, with a focus on marginalized groups,** support private sector enterprises and service providers that receive financing, better-trained and qualified employees and technical assistance (TA) and capacity building services. At the end of the project the resilience of the beneficiaires will have also increased.

51. **Finally, the public sector will also benefit from the project**, through strengthened capabilities to utilize innovative financing instruments, and increased capacity and service delivery within the skills development market.

D. Results Chain

52. The project activities aim to address some of the fragility drivers and market failures of the Palestinian context, as indicated by the below Theory of Change (TOC).

Figure 1 F4J III: Theory of Change



53. **F4J III aims to address several drivers and effects of fragility in the Palestinian territories.** The DIB will help mitigate the impact of recurring conflicts on human capital and the economy by supporting trainings on in-demand skills and jobs. This will improve the resilience of human capital, as beneficiaries with relevant skills and job experience can more easily find alternative employment should their primary job be affected by conflict. By building relevant, job-earning skills, the DIB can also help protect against joblessness and related loss of income and poverty, helping strengthen societal resilience. The ICF will help build the resilience of the Palestinian economy to external shocks as well as political instability by helping financially sound, well managed, job creating firms grow and strengthen their capacity to attract and manage investment. World

Bank research shows that well managed firms are more resilient in crises.[20] As such, more jobs created by more well managed firms can mean less jobs lost during crises, and less economic output foregone. By providing TA and capacity building for the MoF, the ICF component can also help PA institutions develop policies and approaches that are better suited to the needs of private sector stakeholder, and in so doing help strengthen the relationship between citizens and institutions. Finally, the ICF can also support resilience to economic shocks and to the impacts of climate change.

E. Rationale for World Bank Involvement and the Role of Partners

54. **There is a clear rationale for the use of World Bank resources.** The project and the overall SOP are based on long-standing World Bank engagements and analytical work. The proposed project will (i) help mobilize private capital (ii) create jobs; (iii) contribute to gender inclusion by facilitating the employment of women and targeting firms with female top managers; and (iv) under the ICF component, will invest resources in investments that would not otherwise take place. The project will also allow us to "green" some of these investments in priority development regions.

55. **In addition, the rationale for World Bank involvement goes beyond financing.** The added value also arises from the Bank's technical input based on international experiences, and the convening power of some of the best international experts. The instruments financed under F4J III are still innovative, and will achieve maturity under F4J III; hence, the role of the Bank is particularly critical, and even more so considering the FCV context.

56. **Finally, the project will leverage synergies and avoid overlaps with other Bank projects to enhance their interventions.** This has already happened, at different levels, under the previous two projects of the SOP, and examples of this are: a) the Rapid Response Working Capital Grant Window (RRP) that was introduced under F4J I to enable start-ups, early-stage enterprises, and small and medium enterprises (SMEs) to mitigate, adapt, and sustain operations during the COVID-19 crisis, which was implemented jointly with another World Bank operation (Innovative Private Sector Development Project); b) over time, the World Bank team facilitated meetings with other development partners and donors to ensure coordination of the projects interventions. The PIA also held regular meetings with other PIAs to find out the characteristics of the beneficiaries of the several projects, collect information on the development projects to identify which ones have similar characteristics, and concretely coordinate activities, especially when issues arose; and, finally, c) potential project beneficiaries have to declare their sources of funds, so to know who else is supporting them, if any. Given that F4J III's DIB component includes on-the-job trainings and internship programs to IT sector beneficiaries, the program will need to be closely collaborated with the World Bank Techstart Project to avoid overlaps and inefficiencies related to these activities.

57. **Regarding the role of partners, past World Bank Group collaboration between IBRD, IFC, and the Multilateral Investment Guarantee Agency (MIGA) in the F4J SOP initiative has been critical in achieving positive results since two ICF projects were co-financed by the IFC and one benefitted from MIGA guarantees.** This collaboration will continue with F4J III, especially if the Investment Co-Financing Facility (ICF) investments require co-financing from IFC and MIGA guarantees. Furthermore, additional partner contributions will allow the establishment and launching of DIB 2.0. Given the limited project envelope and the fact that DIB investors were hoping for a much larger investment size for DIB 2.0, the investors will work with the World Bank team and the PIA to raise additional funding to expand the DIB. Finally, job creation is

[20] https://www.brookings.edu/blog/future-development/2021/03/31/are-better-managed-firms-more-pandemic-resilient/

increasingly a central theme of donors, the private sector, the development agencies supporting the Palestinian economy, and the Palestinian Authority, which look to the World Bank to provide analytically grounded and evidence-based guidance to implement instruments that may have an important impact on Palestinian society.

F. Lessons Learned and Reflected in the Project Design

58. **The design of F4J III incorporates lessons learned from the implementation of the first two projects of the SOP, as follows:**

(a) The implementation mechanism, based on a private sector agent, has proven to be successful and to lead to satisfactory project results in the first two operations. This mechanism has facilitated the involvement of the private sector in project operations and has facilitated institutional dialogue among key stakeholders.

(b) The SOP instrument is a good choice for projects that finance instruments like ICF and DIB, and that require phasing activities over time, building consensus among stakeholders, and financing flexible activities that may need to be adjusted, especially given the FCV context.

(c) Designing and implementing development impact bonds (DIBs) requires specialized expertise. In F4J II, none of the key stakeholders, including the outcome funders, investors, and service providers had any prior experience managing a DIB. This resulted in a prolonged process for achieving World Bank approval for the impact bond and finalizing the outcome contract (OC) negotiation with the investors. From the outcome funder's perspective, it is important to engage potential investors upstream as much as possible in order to understand the operational, legal, and fiduciary requirements of each institution. It is also important to outline a clear timeline for supporting investor approvals, as well as agreeing on a term sheet, to ensure that investors are comfortable with the key terms of the contract upfront, before going to the OC negotiation stage. Based on the lessons learned, all key stakeholders should aim to align their timelines and negotiate the terms of the F4J III DIB outcome contract along with the World Bank internal approval process.

(d) A few of the lessons generated from the implementation of DIB under F4J II have informed the design of DIB under F4J III. These include i) changing the age limitation on DIB beneficiaries from 18-29 to include members of socially disadvantaged groups that are older than 29; ii) including an employment program not only for the unemployed but also for the underemployed population; iii) expanding the scope of the DIB program to include additional employment services such as coaching, mentoring, on-the-job training, job intermediation services, etc.; and iv) expanding the DIB program to include the Gaza Strip.

(e) The design of the ICF program under F4J III is informed by several lessons learned from previous projects. First, it was recognized that a five-year timeline is necessary in order to ensure the full completion of all ICF investments, and to see targeted results, since it takes time from the signing of the grant to the completion of the investment, to the desired effect of job creation. The inclusion of technical assistance (TA) has also proven to be highly relevant in ensuring the successful completion of ICF grants and raising the capacity of beneficiaries. To better target women entrepreneurs, the project has also opened a specific window for W-SMEs. This window has adapted the minimum size, and some of the selection criteria of the instrument in order to ensure that a bigger pool of W-SMEs is covered by ICF and can potentially benefit from the grants. Finally, ICF investments will increase their focus on climate change to be better aligned with corporate as well as government strategies. By incorporating these lessons learned, the ICF program aims to ensure that its investments are impactful and sustainable, and that they will contribute to the overall economic growth of the region.

(f) **One final lesson learned is on the importance of including a component of unallocated funds that can be easily reallocated to project activities as needed**, and in a flexible way, especially considering the FCV context.

III. IMPLEMENTATION ARRANGEMENTS

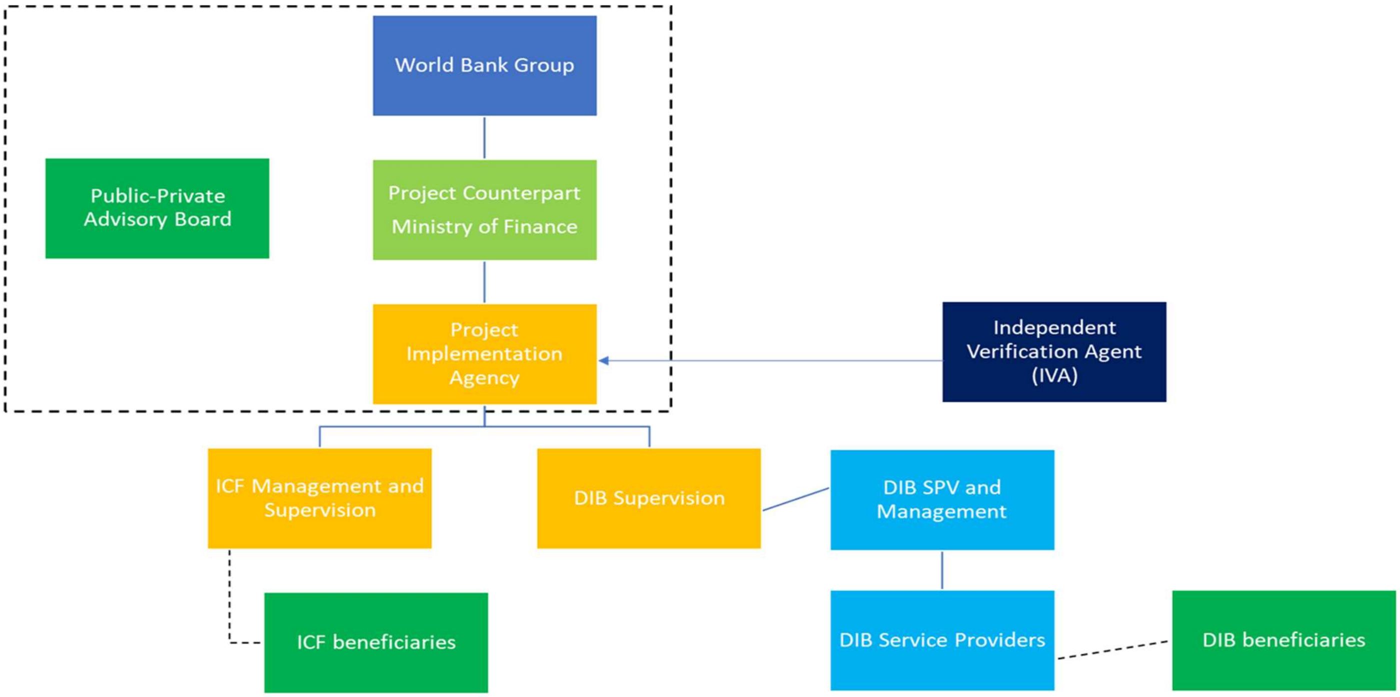
A. Institutional and Implementation Arrangements

59. **The F4J III implementation arrangements will follow the model of the implementation arrangements of F4J I and II.** The MOF remains the formal PA project counterpart to the project and will continue to 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; it is responsible for procurement, financial management, safeguards, M&E, annual work planning, progress reporting, and general oversight of the project. The PIA will also continue to be responsible for the oversight of the financing instruments, in partnership with MOF and the World Bank, including the establishment of eligibility criteria, due diligence of potential grantees, compliance with eligibility criteria, and oversight of grant agreements, as well as disbursement conditions and verification. However, 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.

60. **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, the Ministry of Labor, the Environment Quality Authority, 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. In particular, 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 in Palestine. More specifically, the PPAB will: (i) review job creation and private sector growth policy developments and advise on them; (ii) review innovative and new ways for both the public and private sector to approach job creation challenges in the region and elsewhere, and advise the F4J team; (iii) invite and consult with regional and global experts to promote thought leadership; (iv) promote policy dialogue between public and private sector leaders; and (v) provide guidance on project implementation based on progress and performance of the F4J project. As a result of its role and position within the F4J SOP governance structure, the PPAB will continue to capture much of the knowledge generated and lessons learned from the project, which are a critical aspect of the F4J series. The PPAB is chaired by the Minister of Finance, or a delegate; it meets semiannually.

61. **An overview of the project implementation arrangements is included in the diagram below.** Additional details will be provided at appraisal.

Figure 2: Implementation Arrangements



62. **One comprehensive Project Operations Manual (POM) is in place for the F4J SOP, covering all the projects of the series and the innovative financing instruments that have been supported (to date).** Upon approval of F4J III the POM will be revised as appropriate. It is expected that the POM will be further revised during implementation to accommodate ongoing adjustments and lessons learned.

B. Results Monitoring and Evaluation Arrangements

63. **Given the important intrinsic learning that will take place across all the activities financed by F4J III and the overall SOP, monitoring and evaluation (M&E) of the results are very important.** The M&E arrangements currently in place under F4J II will continue under F4J III. The World Bank team and the PIA have worked together to design the M&E framework of the overall F4J SOP, and specifically of F4J III. The World Bank team will be responsible for oversight of the M&E framework, including the results framework of both F4J SOP projects (F4J II and F4J III), while the PIA will be responsible for the regular collection and analysis of data over time. The PIA's capacity for the collection, clearing, and reporting of M&E data is currently satisfactory, and will be further improved over time.

64. **Data and information will be collected through M&E visits, regular surveys among beneficiaries and major**

stakeholders, and the use of specialized expertise, especially for the number-of-jobs indicator. The templates needed have already been developed and tested. However, the unique character of the two project instruments to be implemented requires that different M&E approaches will be deployed in each case.

65. Key considerations for each instrument are as follows:

- **DIB**: Data will be collected by the PIA through the DIB special purpose vehicle (SPV). In addition, an independent verification process is in place, which will report on the achievements of the agreed upon outputs and outcomes by the DIB, and requests for the outcome payments on a quarterly basis.
- **ICF**: This instrument's evaluation methodology follows a case study approach, benchmarked against investment-to-job sector outcomes as established by a computable general equilibrium (CGE) model that was developed for F4J SOP[21], and the SRR analysis undertaken as part of the due diligence for the allocation of ICF funding.

66. **The operational aspects of the M&E framework are presented in the POM.** Relevant tasks include: (i) M&E methodology, implementation plan, and approach for compilation of baseline and follow-up data; (ii) preparation of quarterly, half-yearly, and annual project monitoring reports, containing summary data on overall performance against targets; and (iii) annual M&E reviews and lessons learned to enhance F4J SOP outcomes.

C. Sustainability

67. **The project's components and activities focus on creating long-term, sustainable economic and social impact for the people of West Bank and Gaza**. The DIB component aims to shift the traditional jobs and employment programs into a results-based, employer-led employment model, by leveraging private sector investments. The concept of "capital recycling" can generate multiplier results with limited initial capital investment from private investors, leading to financial sustainability.

68. **Further, the DIB addresses the skills mismatch market failure in West Bank and Gaza by training professionals and enhancing workers' skills in the relevant sectors.** This will lead to a sustainable skilled labor force and increased productivity for the relevant industries.

69. **Finally, the DIB is sustainable in the sense that it creates employment without employment subsidies, which is a tool commonly used by the traditional government sponsored jobs and training program.** Instead of this approach, DIB creates employment by training young people based on employer demand and the availability of jobs; it focuses on results and paying for young people placed in sustained jobs, rather than for the training itself, thus shifting the risk away from donors and governments primarily to investors and partially to service providers; it also incentivizes them to embrace innovation, while increasing efficiency and aligning the interests of various stakeholders.

70. **Regarding the ICF, the team will continue its tested approach for sustainability and inclusion of relevant beneficiaries,** by i) collaborating with local stakeholders; ii) tailoring technical assistance both to the private sector and to government; and iii) continuing to leverage private sector financing. As a new addition to aid in

[21] A dynamic CGE model of the West Bank and Gaza was developed with financing from the "Let's Work" Trust Fund to provide estimates of sector-specific job outcomes broken down by a number of variables: type of job (skilled/unskilled; youth/adult; male/female; West Bank/Gaza). It will provide a helpful benchmark for assessing potential job outcomes in ICF proposals.

developing long-term sustainability, the project will also focus on climate impact.

71. **Collaboration with Local Stakeholders**. Collaboration with local stakeholders, including private sector actors, financial institutions, and government agencies, has increased the chances of ICF projects being successful and sustainable in the long run. By working closely with these stakeholders, ICF can tap into their expertise, resources, and networks, which will help improve the quality of project proposals and increase the chances of successful implementation, as well as ensure that a broad range of initiatives are supported.

72. **Tailored Technical Assistance**. The ICF will continue to provide tailored technical assistance to projects and the government to help them navigate the complexities of the investments, and transfer knowledge to local stakeholders.

73. **Leveraging Private Sector Financing**. To ensure the long-term sustainability of the ICF, it has been critical to leverage private sector financing. By mobilizing over $54.4 million in private capital, ICF has already shown that it can be an important tool for private sector investment in the target countries.

74. **Focusing on Climate Impact**. As the ICF expands its focus on climate, it will be important to prioritize projects that have a positive climate impact, for example, enhance beneficiaries' resilience to potential climate shocks, reduce their impact on climate change and help them leverage climate-related opportunities through climate-smart solutions that strengthens competitiveness, as well as benefit women, youth, and vulnerable communities. By prioritizing these types of projects, ICF will contribute to sustainable development and address pressing social and environmental challenges.

IV. PROJECT APPRAISAL SUMMARY

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

75. **The project team conducted an economic and financial analysis to determine the value of anticipated benefits relative to the costs associated with this project.** The project NPV is estimated at US$9.5 million at a 15 percent discount rate[22] and the ERR at 32 percent over a ten-year period including implementation. This estimate is based on investments under Components 1 and 2, accounting for approximately 83 percent of the project. Including the project management costs yields a total project NPV of US$7.0 million and an ERR of 26 percent.

76. **Component 1 will finance a skills development program to address high youth unemployment rates in the West Bank and Gaza. Component 2 provides risk-sharing grants to high-potential projects that are expected to be commercially sound, create jobs, and enable private sector investment.** The economic analysis is based on a reduced unemployment rate for DIB beneficiaries and the valuation of ICF projects which would be unable to occur without the grant provided by the project. The assumptions and methodology are discussed in detail in Annex 6.

77. **The Component valuations are as follows: i) Component 1 NPV is estimated at US$4.4 million with an ERR**

[22] The estimated risk-adjusted discount rate. The cost of debt capital in Palestine is estimated at 8%; however, given the high risk and volatility, the discount rate has been increased to 15%. This is similar to the discount rate used for other World Bank FCV projects.

of 28 percent; and ii) Component 2 NPV is estimated at US$5.1 million with an ERR of 39 percent.

78. **It is worth noting that the social rate of return could be even higher since the number of private sector investments would be lower without this project.** Project investments could also increase employment opportunities through growth of the entrepreneurial and investment ecosystem. Additionally, the climate change adaptation and mitigation impact of green projects created under the ICF component could further amplify the social returns. Finally, the impact of increased opportunities in conflict zones is likely to contribute to greater local stability.

79. **Rationale for public sector involvement:** The Project design addresses key constraints impacting employment and private capital mobilization in the West Bank and Gaza. The DIB component provides skills development for beneficiaries to enable their sustainable employment, while the ICF grants reduce the risk associated with new subproject investments to allow them to move forward. As such the Project spurs both increased youth employment and growth of the entrepreneurial ecosystem in the West Bank and Gaza. Without this demonstration effect, private financing would be unavailable, making the use of public financing critical to address these binding constraints and bottlenecks. This will also allow for further re-investment, amplifying the impact of the Project.

80. **The operation is aligned with the goals of the Paris Agreement on both mitigation and adaptation.** On mitigation, the project is not expected to have any material negative impact on the achievement of the local greenhouse gas (GHG) emission reduction targets. The SOP has already actively contributed to decarbonization through various initiatives such as renewable energy projects, and the promotion of climate-friendly investments, which helped to reduce GHG emissions and advance the transition to a low-carbon economy. F4J III will build and continue this experience. Going forward, the project is emphasizing innovation and sustainability, focusing on climate change and gender in the future phase, especially under component 2. Specifically, future potential investment proposals under the ICF will have to show how they are in line with the West Bank and Gaza's long-term decarbonization pathway outlined in the NDC and have a low risk of locking in carbon-intensive patterns. This could include investments into the circular economy with waste minimization, recycling, and recovery/treatment solutions; and improving food logistics, such as storage capacity and efficiency, implementing waste reduction measures and improving packaging, as those are one of the major unaccounted GHG sources. Application of these eligibility criteria for project investments is a key measure to ensure that the transition risk associated with the project is low and the project's carbon lock-in risk is also low. Assessment of grant applications will entail considerations whether beneficiaries could achieve the same objectives with alternative lower-emission solutions. In addition, due to their relatively small size, investments expected under this project are less likely to have a material impact on carbon lock-in.

81. **The project has an acceptable level of adaptation risks.** In general, the operation is exposed to various climate-related risks that have the potential to impact its success and outcomes. The geographical location of the West Bank and Gaza, combined with their arid climate, makes them highly vulnerable to the effects of climate change. The projected rise in temperatures, changes in rainfall patterns, and an increase in the frequency and intensity of extreme weather events like droughts and floods pose significant risks and could potentially affect its activities in the long term, especially in the agri-food sector. To address these risks, the project is implementing measures that promote climate resilience and adaptation. This will include, where possible, alignment with the adaptation objectives in NDC and NAP, and can include supporting climate-smart agriculture practices; encouraging drought-tolerant crops; promoting high-value crops with water-saving

technologies; fostering crop diversification; adjusting planting and harvesting dates; and implementing digital infrastructure for cities; which can help climate-proof the overall region and specifically the agri-food sector to changing climate conditions. In other sectors, this could cover designing and managing infrastructure to enhance resilience to climate hazards and retrofitting or rehabilitating storage and processing facilities. Additionally, the project will be potentially investing in the skills development of the labor force to adapt to climate change which might help mitigate the negative impacts and enhance the overall capacity of the population to respond effectively to climate change.

B. Fiduciary

(i) Financial Management

82. **The PIA will continue to handle all FM and disbursement aspects of F4J III and will report periodically to the project counterpart at MOF as well as the World Bank.** The FM arrangements at the PIA are considered Satisfactory and are designed to ensure that funds are used for the purposes intended. The PC at MOF has experience with the World Bank's financial management (FM) and disbursement guidelines. Two US-dollar designated accounts (DAs) will be opened at a commercial bank in the West Bank and managed by the PIA for the new project (a separate DA is required for the DIB). Withdrawal applications (WAs) will be endorsed by MOF, and funds will be directly deposited into the DAs managed by the PIA. For Component 1, independent verification reports on the achievement of agreed-upon outputs and outcomes will be required in order to trigger withdrawal.

83. **The Project Implementation Agency (PIA) will produce interim financial reports (IFRs) semiannually, and will submit these to the project counterpart,** who will endorse them and submit them to the World Bank for the purpose of monitoring F4J III implementation. The unaudited IFRs should be submitted to the Bank within 45 days after the end of each period. The PIA will also be responsible for providing annual audited project financial statements, which should also be submitted to the PC, who will endorse and submit them to the Bank within six months after year-end. These statements will be audited in accordance with international audit standards by an audit firm acceptable to the World Bank and recruited competitively based on terms of reference acceptable to the Bank.

84. **The project counterpart at MOF will keep accounting records and will ensure that F4J III's activities are recorded in the PA accounting system (Bisan).** This will be done throughout the life of F4J III. 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 F4J III accounts.

85. **To ensure sound management of F4J III resources, the PIA will have an Implementation Agreement (IA) with the MOF, supported by a Project Operations Manual (POM), as was the case for the other projects.** The current POM has details covering all administrative, financial, accounting, budgetary, and human resources procedures relevant to F4J II. The PIA will review and update the POM for F4J III.

86. Detailed FM arrangements are included in Annex 1.

(ii) Procurement

87. **Procurement under F4J III will be carried out in accordance with the World Bank's Procurement Regulations for Investment Project Financing Borrowers, dated November 2020.** The Guidelines on Preventing and

Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants, dated October 15, 2006, and revised in January 2011 and July 1, 2016, shall apply to the Project.

88. **The PIA will continue to hold overall responsibility for procurement following the same arrangements that are in place for F4J II.** In particular, the PIA will carry out procurement for Technical Assistance (TA) and project management, and will oversee procurement, to be carried out by grant recipients. Procurement will be carried out in accordance with well-established private sector procurement methods, or commercial practices that have been found acceptable to the World Bank under the F4J projects series. A procurement risk and capacity assessment of the PIA was updated to identify risks and agree on mitigation measures; see Annex 1. The residual procurement risk with the mitigation measures is rated Moderate.

89. **The project will finance goods, minor works, non-consulting services and consultants' services.** The PIA will continue to finance output- and outcomes-based grants (DIB grants) that explicitly link grant financing to the achievement of agreed outputs and outcomes under Component 1. Given their demand-driven nature, procurement packages under the ICF grants in Component 2 will be defined by the PIA after the selection of ICF investors. The PIA has prepared a Project Procurement Strategy for Development (PPSD) to determine the most appropriate procurement arrangements. In addition, the PIA has prepared a Procurement Plan for the first 18 months of F4J III implementation for the TA packages under Component 2, and the Project Management Component (Component 3), to be managed by the PIA. The PPSD and the Procurement Plan have been approved by the World Bank prior to negotiations.

90. **Detailed Procurement Arrangements are included in Annex 1.**

C. Legal Operational Policies

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Area OP 7.60	No

D. Environmental and Social

91. **F4J III 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.

92. **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 sexual exploitation and abuse/sexual harassment (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.

93. **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 have been reviewed and cleared by the World Bank and publicly disclosed on the project website[23]. 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), which has been prepared by the PIA, reviewed and cleared by the Bank and publicly disclosed on the project website. 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.

94. **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.** In addition, the PIA's Gaza Coordinator will function as an E&S focal point for ICF subprojects and as focal point for the DIB component in Gaza. All these positions will be staffed no later than two months into project effectiveness and will be maintained throughout implementation. A commitment in this regard has 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.

95. **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.

96. **Citizen Engagement**. Various citizen engagement activities, for example stakeholder and beneficiary consultations, will be implemented for both project components. Consultations and two-way engagement with different stakeholders and beneficiary groups (e.g. employers across sectors, potential job seekers/trainees, representative organizations including CSOs etc.) are already intrinsic to the design of F4J

[23] www.f4j.ps

SOPs, and are used to identify needs, concerns, constraints, opportunities etc. which, in turn, inform the design of services offered under the DIB. In addition, the project will finance a mechanism, especially under the DIB, where beneficiaries can engage with the implementing team and provide feedback. A beneficiary feedback survey on various aspects of the training will be conducted upon the completion of training activities. Key findings of beneficiary surveys and the corresponding actions taken by the implementing team to further improve training services will be shared with beneficiaries to close the feedback loop.

97. **Furthermore, a strong outreach program, aimed at reaching different groups targeted by the project, is also a key feature of the project design.** In the case of F4J III, outreach activity will focus on target groups/their representative organizations (including CSOs) such as underemployed youth in menial jobs, women who have been out of the job market, marginalized populations, and so on to ensure that these groups are equipped and encouraged to apply for DIB services/benefits. The DIB has to date strived to ensure that the program reaches a wide range of beneficiaries, and that the design of the communications strategy and application contributes to ensuring equitable access to the program for people across the socioeconomic spectrum. Certain subprograms require very well-defined technical skills confined to a specific target group. For example, the engineering program beneficiaries must be members of the Palestine Engineering Association (PEA), and the doctor program beneficiaries must be registered under the Ministry of Health. In these cases, the programs were announced through proper, formal channels of the PEA/Ministry of Health in various forms including through their official websites, member newsletters, and social media, etc. For other programs where the target group's technical qualification is less well defined, all announcements are made public and are posted in newspapers, social media platforms, and/or are announced in mosques, and through village announcements. Interested individuals can either apply online through DIB's official website or apply at specific locations with the help of the service provider personnel. This is especially helpful for those who don't have access to the internet, or who don't know how to fill out online applications.

98. **Finally, stakeholder/beneficiary engagement and information dissemination will also be ensured, across project components, through implementation of the project SEP.**

99. **Climate change and disaster screening (CCDS).** The project has been submitted to a rapid CCDS. Through this tool it has been determined that the project location faces a high exposure to climate change and disaster. To reduce this risk, the project includes i) capacity building and training for beneficiaries to help them better support/implement climate-smart solutions; and ii) a requirement to ensure that firms with female top managers, as well as climate-resilient and sustainability-enhancing businesses are supported. Together, these features will contribute to reducing the anticipated risk from climate hazards. This analysis will be further deepened during project implementation.

V. GRIEVANCE REDRESS SERVICES

100. ***Grievance Redress.*** Communities and individuals who believe that they are adversely affected by a project supported by the World Bank may submit complaints to existing project-level grievance mechanisms or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed to address project-related concerns. Project-affected communities and individuals may submit their complaint to the Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank noncompliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers

with the opportunity to address complaints through dispute resolution. Complaints may be submitted to the AM at any time after concerns have been brought directly to the attention of Bank Management, and after Management has been given an opportunity to respond. For information on how to submit complaints to the Bank's Grievance Redress Service (GRS), please visit *http://www.worldbank.org/GRS.* For information on how to submit complaints to the Bank's Accountability Mechanism, please visit *https://accountability.worldbank.org/*

VI. KEY RISKS

101. **The overall risk rating for F4J III is Substantial. Areas of primary concern include risks related to the political, governance, and macroeconomic aspects of the West Bank and Gaza.**

102. **The political and governance risks are high since the situation in the West Bank and Gaza remains fragile.** In November 2022, political elections took place in Israel for the fifth time in the span of the last three years, creating a high level of political uncertainty. On the Palestinian front, the legislative council has been inactive for more than 15 years, undermining checks and balances. Since the start of 2023, the West Bank and Gaza have witnessed a significant uptick in both clashes in the West Bank, and cross border violence from already high levels in 2022. As regards Gaza, the last larger conflict took place in August 2022, but sporadic smaller conflicts are ongoing. Political instability and the long-lasting restrictions on movement, access, and trade continue to be major impediments to development. This volatility may affect the PA's ability to implement programs; and if the situation escalates, negative consequences may ensue. However, despite the challenging context, the PA remains committed to implementation of its programs. Also, as part of the risk mitigation, the project finance interventions have proven to be flexible and able to adapt to shocks and severe circumstances. Furthermore, political and security developments are monitored routinely by the World Bank Group to remain constantly informed of any situation that may require adjustments to its operation, which further mitigates this risk.

103. **The macroeconomic risks are high.** The economy is enduring a fiscal crisis, and the economic outlook is dire. Against the background of repeated political and security shocks, the combination of the loss of revenues due to the COVID-19 pandemic and spending priorities have driven deficits to unprecedented levels. With only limited financing options, the PA has accumulated large domestic arrears. The fiscal challenges are largely structural in nature. Under unchanged policies, the economic outlook is bleak, with debt on an unsustainable path, and per capita GDP projected to be stagnant. This is against the backdrop of already persistently high unemployment and poverty, particularly in Gaza.

104. **The environmental risk is rated as substantial**. 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. Social risk is rated moderate.

105. **Other risks are substantial.** This category captures any other relevant risks in the context of the proposed operation that are not covered by the other categories. Risks captured in this category include international political risks, specific regional risks, and the risk of spillovers from neighboring countries, among others.

VII. RESULTS FRAMEWORK AND MONITORING

PDO Indicators by PDO Outcomes

Baseline	Closing Period
Private Capital Mobilized	
Private Capital Mobilized (Amount(USD))	
Dec/2023	Dec/2028
0.00	25,000,000.00
Employment Opportunities Created	
Number of jobs created (Number)	
Dec/2023	Dec/2028
0.00	1,200.00

Intermediate Indicators by Components

Baseline	Closing Period
Development Impact Bond	
Number of beneficiaries accepted into the DIB program and started the training/employment services (Number)	
Dec/2023	Dec/2028
0.00	1,250.00
➢Number of women accepted into the DIB program that started the training/employment services (Number)	
Dec/2023	Dec/2028
0.00	430.00
Number of Beneficiaries starting employment (Number)	
Dec/2023	Dec/2028
0.00	560.00
➢Number of beneficiary women starting employment (Number)	
Dec/2023	Dec/2028
0.00	195.00
Number of beneficiaries with employment at 6 months (Number)	

Dec/2023	Dec/2028
0.00	400.00
➢Number of beneficiary women with employment at 6 months (Number)	
Dec/2023	Dec/2028
0.00	140.00
Beneficiaries that graduated from training and employment services that feel that the services were accessible and will be useful for future employment purposes (Percentage)	
Dec/2023	Dec/2028
0.00	70.00
Investment Co-Financing Facility	
Firms benefiting from private sector initiatives (Number) CRI	
Dec/2023	Dec/2028
0.00	10.00
➢W-SMEs benefitting from private sector initiatives (Number)	
Dec/2023	Dec/2028
0.00	2.00
Number of jobs created by the ICF projects (Number)	
Dec/2023	Dec/2028
0.00	800.00
➢Number of jobs created by the ICF projects (women) (Number)	
Dec/2023	Dec/2028
0.00	150.00
Number of private sector initiatives aligned to NDCs (Percentage)	
Dec/2023	Dec/2028
0.00	30.00
Project Management	
Unallocated	

Monitoring & Evaluation Plan: PDO Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Private Capital Mobilized	The core indicator tracks the amount of private capital	Semiannual	PIA/DIB Manager	Data collected on a semiannual basis by the	PIA/ DIB Manager

	mobilized raised by the ICF investments and the DIB			PIA	
Number of jobs created	The number of jobs created as a result of the two financing instruments (DIB and ICF)	Quarterly	PIA/DIB Manager	Data collected by the PIA on quarterly basis and validate at mid-term and at project completion through independent surveys	PIA/DIB Manager

Monitoring & Evaluation Plan: Intermediate Results Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Number of beneficiaries accepted into the DIB program and started the training/employment services	This indicator basically measures the number of beneficiaries of job-related interventions, which is a corporate indicators. In the specific case of the project it measures the number of beneficiaries accepted into the DIB program and that formally start the program. It includes also the breakdown by women.	Quarterly	DIB Manager	Data collected by the DIB team quarterly from the Service Providers	DIB Manager/PIA
Number of women accepted into the DIB program that started the training/employment services	Number of beneficiary women accepted into the DIB program and formally start the program	Quarterly	DIB Manager	Data collected by the DIB team quarterly from the Service Providers	DIB Manager/PIA

Number of Beneficiaries starting employment	Number of DIB beneficiaries that start employment	Quarterly	DIB Manager/ PIA	Data collected quarterly from the Service Providers and beneficiaries	DIB Manager/PIA
Number of beneficiary women starting employment	Number DIB beneficiary women that start employment	Quarterly	DIB Manager	Data collected quarterly directly from the Service Providers and beneficiaries	DIB Manager
Number of beneficiaries with employment at 6 months	Number of DIB beneficiaries that have employment at 6 months	Quarterly	DIB Manager	Data collected quarterly from the Service Providers and beneficiaries	DIB Manager
Number of beneficiary women with employment at 6 months	Number of DIB beneficiary women that have employment at 6 months	Quarterly	DIB Manager	Data collected quarterly from the Service Providers and beneficiaries	DIB Manager
Beneficiaries that graduated from training and employment services that feel that the services were accessible and will be useful for future employment purposes	This will measure the extent to which decisions about the project reflected DIB beneficiaries preferences in a consistent manner. Accessibility can be measured as access to information on how to participate in the training event, ease of attending the training, format/style of instruction, while usefulness	Semiannual	DIB Manager/PIA	Data collected through surveys to beneficiaries. Key findings of beneficiary surveys and the corresponding actions taken by the implementing team to further improve training services will be shared with beneficiaries to close	DIB Manager/PIA

	can be assessed on the basis of subject matter, information provided, and so on.			the feedback loop.	
Firms benefiting from private sector initiatives		Semiannual	PIA	Data collected semiannually by ICF grantees	PIA
W-SMEs benefitting from private sector initiatives		Semiannual	PIA	Data collected semiannually by ICF grantees	PIA
Number of jobs created by the ICF projects		Quarterly	PIA	Data collected by the PIA on quarterly basis and validate at mid-term and at project completion through independent surveys	PIA
Number of jobs created by the ICF projects (women)		Quarterly	PIA	Data collected by the PIA on quarterly basis and validate at mid-term and at project completion through independent surveys	PIA
Number of private sector initiatives aligned to NDCs	Private sector Initiatives, aligned/supportive with the local NDC, are defined as initiatives that are within the 12 identified sectors of the 2021 NDC and support	Quarterly	PIA	Data collected quarterly at signature of ICF projects and at their completion	PIA

	at least 2 or 3 conditional NDC actions				

ANNEX 1: Implementation Arrangements

COUNTRY: West Bank and Gaza
Finance for Jobs III

1. The overall project implementation arrangements entail three levels. At the apex is the MOF as the formal PA project counterpart to the F4J SOP. The Project Implementation Agency (PIA) is responsible for overall management of F4J III, and was competitively recruited from the private sector under F4J I, the first SOP project. The PIA is responsible for procurement, financial management, safeguards, and M&E, including annual work planning and progress reporting, and oversight of the DIB outcomes agreement that will be activated under F4J III. The PIA will have a specialist on staff to manage the DIB component. Furthermore, for the management of the Investment Co-Finance Facility (ICF), a dedicated team is already in place to assess new proposals as well as monitor ongoing grants.

2. The following summarizes the main project-related functions of each of the parties referenced above. The overall structure is shown in Figure A1.1 below.

- **Ministry of Finance (MOF):**
  - Stakeholder consultations and ongoing coordination
  - Endorsement of withdrawal applications (Was), indicating that funds be deposited directly into the designated account (DA) managed by the PIA
  - Review and approval of quarterly and annual work planning
  - Review and approval of quarterly project financial progress and outcomes reports

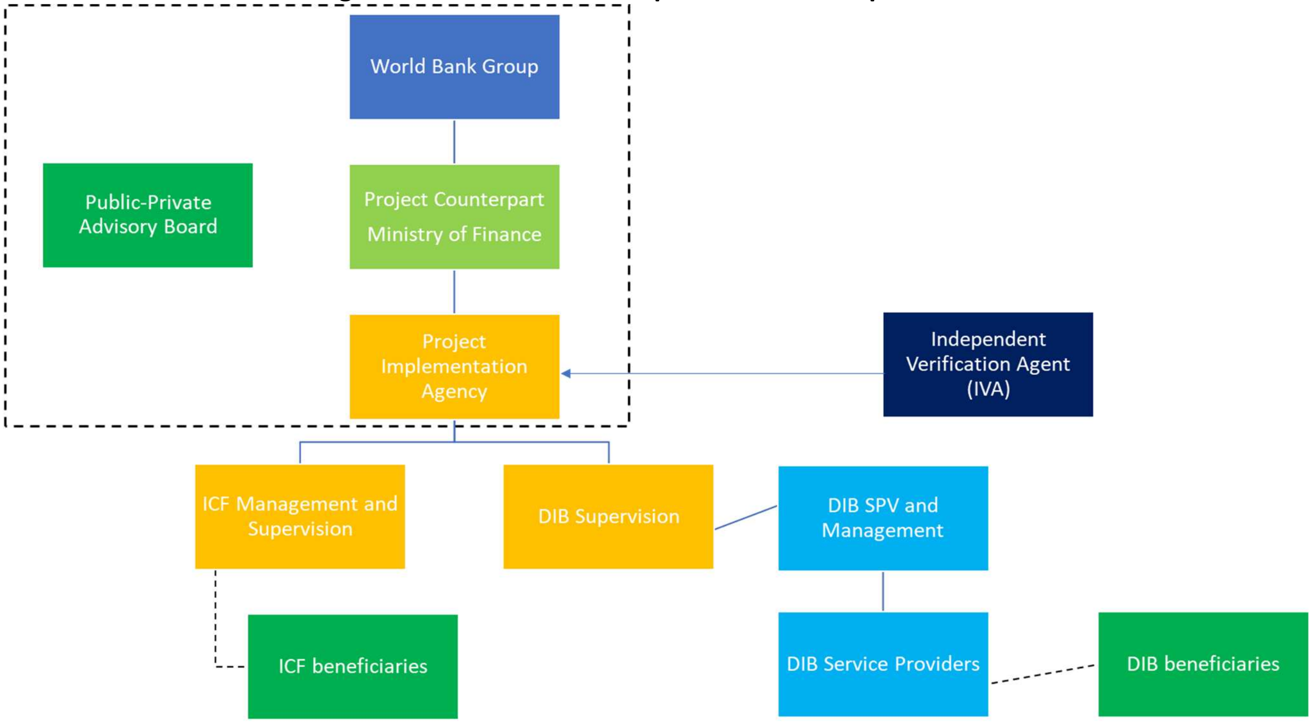
- **Project Implementation Agent (PIA):**
  - Project procurement
  - Financial management of project funds in coordination with the MOF
  - Day-to-day project management, including work plan preparation
  - Technical services – specifically for the ICF investment pipeline, and capacity building
  - Negotiation of the DIB with investors, together with MOF and the World Bank;
  - M&E, including progress reporting

- **DIB Special Purpose Vehicle (SPV) acting as DIB Manager (DM)**
  - Investor-owned vehicle that pools investment capital to provide upfront finance for the DIB
  - Legal entity used to contract with investors, outcomes funders, and service providers
  - Acts as (the “DIB Manager”) to undertake service delivery and performance management of the DIB on behalf of investors
  - M&E reporting on DIB implementation
  - DIB services work planning, and progress and outcomes reporting
  - Management of investment funds
  - Procurement of DIB service providers

  - Payment of services delivered under the DIB from investor funds

- **Public-Private Advisory Board (PPAB):**
  - Semi-annual consultation on the joint issue of jobs and private investment
  - Think tank on new ways for public and private sector to tackle the jobs challenge

Figure A1.1: Structure of Implementation Responsibilities



Financial Management

Implementing Entity

3. Fiduciary activities, including procurement and financial management, will be handled by the PIA. The PIA has an Implementation Agreement (IA) with MOF, and will manage the day-to-day financial management aspects of F4J III. The PIA reports to the PC, who will endorse the reports and submit them to the World Bank. The PIA and the PC will ensure that financial management (FM) under F4J III is carried out in accordance with Bank procedures, to ensure that the funds are used for the intended purpose.

Risk Analysis

4. **Project FM risk.** Based on the FM assessment, the overall FM risk is considered Moderate. With mitigation measures in place, the Project will have acceptable project FM arrangements. The FM risk is assessed as Moderate mainly due to the following:

b. The decentralized implementation of project activities, involvement of the PIA, and coordination with the MOF PC will require a high level of capacity.
c. There is a risk of unperformed or incomplete training programs as well as overstated outputs/outcomes.
d. There is a possibility of misrepresentation of physical progress and misappropriation of funds under ICF (Component 2).
e. The accounting and reporting system is inadequate to capture data for all F4J III activities.

5. **Measures to mitigate FM-related risks.** FM arrangements suited to the capacity available during implementation were designed to mitigate the identified FM risks. These arrangements include the following:

a. The current MOF PC has experience with World Bank guidelines and has participated in specific capacity-building activities regarding the guidelines. The PIA's assessment is Satisfactory, and they have the capacity to ensure that the fiduciary requirements are met.
b. Verification reports will be provided by an Independent Verification Agent (IVA) to verify outputs and outcomes (which will be agreed on ahead of time) to be achieved by the DIB.
c. The IVA's terms of reference (TORs) as well as the F4J III's auditor's TORs and scope will explicitly include verification of agreed-on deliverables.
d. A technical auditor will be hired for ICF projects to verify physical progress and compare it to financial progress.
e. The PIA will manage F4J III, including all fiduciary aspects.
f. The current MOF PC already has a well-functioning computerized accounting system. The chart of accounts will be revisited to ensure applicability to F4J III.
g. The system used by the PIA is capable of opening a separate cost center to account for and report on F4J III transactions.
h. A system is set up for the PIA to comply with fiduciary requirements.
i. A POM was developed under F4J I and updated for F4JII, and will be reviewed to ensure relevance to F4J III, including FM aspects.

Financial Management System

6. **Flow of funds and banking arrangements:** Bank financing will be a grant to be disbursed through a project-specific Designated Account (DA) opened by the MOF and operated by the PIA, into which replenishments from World Bank resources will be transferred and will be used in financing F4J III components according to the approved budget. There will be a second DA opened for the DIB payments which will also be opened by the MOF and operated by the PIA as well. The PIA was assessed as **Satisfactory**.

7. **Withdrawal applications (WAs) submitted to the World Bank** will be prepared by the PIA and signed by the authorized signatures at the MOF and the PIA before submission to the Bank.

8. **In addition to documenting F4J III expenditures through IFRs, for Component 1 outputs and outcomes will be verified, and verification reports will be used as additional measures to trigger withdrawals (whether for replenishing advances or for reimbursement).** For the Bank to accept and process a WA, the eligible expenditure incurred has to have an equivalent or corresponding value as agreed.

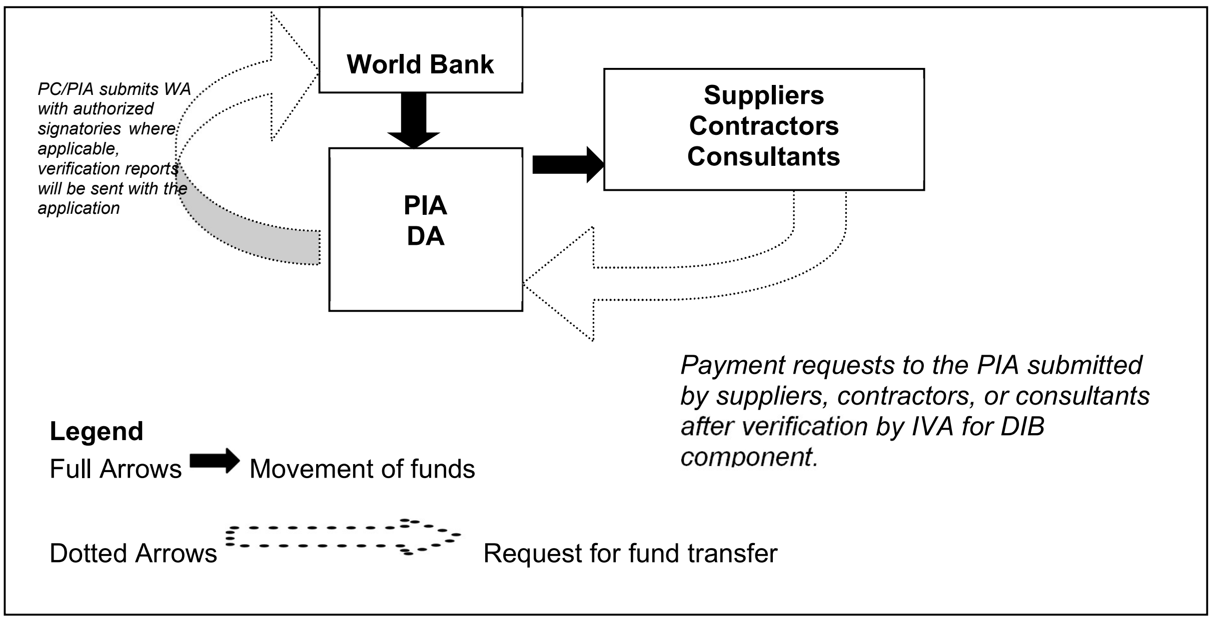
9. **The PIA will vest the sole responsibility to disburse on behalf of F4J III to suppliers, contractors, and consultants.** Additionally, the PC and the PIA will maintain a monthly reconciliation statement between their

records and the Bank's records through 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 that have been predefined in F4J III documents.

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

11. **Figure A1.2 describes the flow of funds for F4J III:**

Figure A1.2 Flow of Funds for F4J III



12. **Information Systems**: A computerized FM system is in place and operational at the PIA. The FM system is capable of producing timely, relevant, and reliable financial information that will enable F4J III'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 F4J III, which will be used by the PC to periodically record all transactions as required by the government system of accounting.

13. **Financial Section of the Project Operations Manual (POM)**: The PIA has a POM covering all administrative, financial, and accounting, budgetary, and human resources procedures relevant to the additional activities to be financed under F4J III. The POM describes the payment procedures, including control and oversight arrangements. A POM acceptable to the World Bank should be updated for F4J III and submitted by the time of negotiations.

14. **Staffing**. All F4J III activities, including financial management, will be handled by the PIA. The PIA will keep all accounting records and ensure that all transactions are recorded. The PC currently at the MOF will also keep

accounting records and ensure that F4J III's activities are recorded in the PA accounting system (Bisan). This can be done on a batch basis since the day-to-day accounting will be undertaken by the PIA.

15. **Financial Reporting and Monitoring**: The PIA will have overall responsibility for financial management of F4J III. Specifically, the PIA will be responsible for: (i) consolidating the grant financial data; (ii) preparing activity budgets (Disbursement Plan) quarterly as well as annually; monthly DA reconciliation statements and withdrawal schedule; and semiannual IFRs and annual financial statements; and (iii) ensuring that F4J III's FM arrangements are acceptable to the PA and to the World Bank.

16. **The PIA will produce semiannual and annual reports as outlined below and will submit these to the PC.** The PC will then endorse and send them to the World Bank for the purpose of monitoring project implementation.

Semiannual Unaudited IFRs (submitted within 45 days after period-end):

(i) Financial reports will 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 F4J III; and supporting schedules comparing actual and planned expenditures, with detailed deviation analysis between actual and budgeted figures;

(ii) Contract listing reflecting all signed contracts under the grant, with the value of each amount disbursed under each contract as at the report date;

(iii) DA statement and reconciliation showing deposits and replenishments received, payments supported by WAs, interest earned on the account, and the balance at the end of the reporting period.

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

(i) A Statement of Sources and Uses of Funds (by grant category/activity showing World Bank and counterpart funds separately);

(ii) A Statement of Cash Position for F4J III funds from all sources;

(iii) 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;

(iv) Notes to the Financial Statements for significant accounting policies and all other relevant information.

17. **Accounting Policies and Procedures**: The Project will follow International Public Sector Accounting Standards (IPSAS) cash basis for accounting, or the modified cash basis, as deemed appropriate. Accounting records will be maintained in US dollars.

18. **External Audits**: The Grant Agreement (GA) will require the submission of annual audited F4J III financial statements within six months after year-end. F4J III'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 Bank.

19. **The external auditors will be expected to express an opinion on the audited F4J III financial statements**; on the eligible use of the World Bank's contribution to F4J III; the accuracy and propriety of expenditures, and the extent to which these can be relied upon as a basis for loan disbursements; and the DA transactions, balances, and compliance with Bank procedures.

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

21. **The external auditor will be required to hire a technical auditor for any works undertaken by F4J III under Component 2 (ICF).** The technical auditor will be required to track progress on a monthly basis and compare it to financial progress.

22. **Implementation Support:** World Bank Financial Management supervision activities will include, but not be limited to, review of expenditures, review of semiannual IFRs, and review of annual audited financial statements and management letters, as well as timely follow-up on issues raised by the external auditor. Field supervisions will be undertaken on a periodic basis during the life of F4J III. Bank supervision missions will consist of visits to the PIA and the PC at MOF, and other stakeholders as necessary. Relevant documentation will be made readily available to the Bank supervision missions.

Disbursements

23. **Disbursements from the World Bank will use the four traditional methods: Reimbursement, Advance, Direct Payment, and Special Commitment.** Reimbursement and Designated Account advance replenishment will follow the IFR-based method for requesting advances and 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. Direct Payment method will be used for ICF payments irrespective of the application amount.

24. **Each TF 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 should be records evidencing eligible expenditures (copies of receipts, suppliers' invoices, etc.). For Component 1, independent verification reports on the achievement of agreed-on outputs/outcomes and the amount to be paid will be required. The Bank will review the report and notify the Recipient to confirm that achievement of outputs/outcomes has been fulfilled, and the payable amount.[24] For Component 2 (ICF payment), due to the specific nature of the financing mechanism, certain prerequisites will be required before disbursement; these will be reflected as Disbursement Conditions in the Legal Agreement.

[24] Payment amounts for outputs and outcomes will be based on tariffs. A comprehensive list of the contractual outcome metrics that the Outcomes Funder is willing to pay to see achieved will be used. It also sets the maximum value for those metrics against which payments will be made to investors. Disbursements will be made against verified achievement of training outputs (for example: engagement and completion of training programs) and job outcomes (for example: job placement, self-employment, increased income, or improvements in employment quality and productivity).

25. **DAs**: The DAs will be held in US dollars. The ceilings of the DA and the financial institution at which the DA have been agreed upon during negotiations.

26. **Planning and Budgeting**: A disbursement plan will be prepared, as well as a financial budget for the life of F4J III (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 F4J III activities; schedules (including the Procurement Plan); and expenditures on monthly and quarterly F4J III activities. The annual budget will be sent to the Task Team Leader (TTL) at least two months before the beginning of F4J III's fiscal year for review.

Procurement

27. **Applicable Procurement Regulations:** Procurement under F4J III will be carried out in accordance with the World Bank's Procurement Regulations for Investment Project Financing Borrowers, dated November 2020. The Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants," dated October 15, 2006, and revised in January 2011 and July 1, 2016, shall apply to the Project.

28. **Procurement Arrangements:** The PIA will continue to hold overall responsibility for procurement following the same arrangements in place for F4J II. In particular, the PIA will carry out procurement for the Technical Assistance (TA) and Project Management, and will oversee the procurement to be carried out by grant recipients. Procurement will be carried out in accordance with well-established private sector procurement methods, or commercial practices that have been found acceptable to the Bank under the F4J project series.

29. **For the DIB under Component 1, the PIA will continue to finance output- and outcomes-based grants that explicitly link the grants financing to the achievement of agreed outputs and outcomes,** by making payments against independently verified and reported results rather than against expenditures on goods, works, or services.

30. **For the ICF under Component 2, the PIA will continue to oversee the procurement to be carried out by grant recipients.** Given their demand-driven nature, procurement packages under the ICF grants will be defined by the PIA after the selection of ICF investors. The PIA will continue to review the ICF applications to be received from potential ICF investors. Applications that meet the ICF criteria will be identified and further followed up on by the PIA. Among other requirements, selected ICF investors will undergo a procurement assessment by the PIA, and will be requested to submit a simplified procurement plan as a prerequisite for signing the ICF grant implementation agreement.

31. **The PIA will carry out minor procurement for the Project Management Component (Component 3) and other relevant central activities for the TA subcomponent under Component 2.**

32. **Procurement Capacity and Risk Assessment:** An updated procurement capacity and risk assessment was completed by the World Bank, with the purpose of identifying the specific risks and appropriate mitigation measures. At the project level, the principal risks and risk management measures are outlined below:

The key procurement risks include:

1. Restrictions on the movement of people and goods to Gaza may delay/hinder implementation of the contracts to be signed by ICF investors who are located in Gaza.

2. Given the nature of the project, which entails the interaction of various stakeholders, coordination and decision-making may become a challenge that may delay project procurement and implementation, especially under the ICF grants.

3. The ICF investors have weak procurement and contract management capacities that could result in implementation delays, improper implication of procurement procedures, or use of project funds for unintended purposes.

The following key measures to mitigate procurement risks will be included in the project design:

1. The PIA will coordinate with the ICF investors to make sure that the vendors coordinate in advance with the Israeli authorities to facilitate the entry of goods to the Gaza Strip. Moreover, ICF investors shall ensure having a reasonable timeline for conducting and completion of procurement activities, in particular for procurement of information and communications technology (ICT) equipment under the project.

2. Detailed procurement processing procedures, with clear responsibilities and business standards established for various steps, will be outlined in the POM, and an adequate and realistic sequencing and prioritization of actions shall be adopted.

3. For the procurements to be carried out by the ICF investors, the PIA will continue to contract technical consultants to provide technical assistance to investors. Furthermore, the PIA will continue to conduct training courses for the investors to ensure that they have the capacity to carry out the procurement process and contract management.

33. **The overall residual procurement risk for the project is considered Moderate**.

34. **Project Procurement Strategy for Development:** F4J III will finance the procurement of goods, minor works, non-consulting services, and consultants' services for the capacity building and project management components. The PIA has prepared a Project Procurement Strategy for Development (PPSD) to determine the most appropriate procurement arrangements for the project. The PPSD revealed, based on the experience in implementing the F4J projects series, that the overall competition and availability of consultants and service providers for the centrally procured packages to be carried out by the PIA are ensured. The international market will be approached by the ICF investors for procurement of specialized production machines and equipment once identified under the envisaged ICF Grants.

35. **Procurement Plan:** The PIA has also prepared a Procurement Plan for the first 18 months of F4J III implementation for the TA packages under Component 2, and the Project Management Component (Component 3), to be managed by the PIA. The Procurement Plan has been cleared by the Bank prior to negotiations.

ANNEX 2: Support Plan

COUNTRY: West Bank and Gaza
Finance for Jobs III

Strategy and Approach for Implementation Support

1. **Aligning Team Composition:** There are a number of key considerations:

   - **Project Management Team:** A core task management team will be comprised of co-task team leaders (TTLs) who will bring close hands-on operational and key technical engagement with the client on a daily basis from the Country Office in Jerusalem, together with fiduciary teams for procurement, financial management, and disbursement (based in Zagreb). This coordination will provide sustained implementation support.

   - **Core Bank Group Project Team technical skills requirements:** F4J III will require ongoing support from "principal" GPs as well as continued close collaboration with others in IFC and MIGA. The "principal" GPs will support F4J II through advisory input and regular technical missions, drawing on the following core areas of expertise: (i) FCI; and (ii) a Jobs Group, particularly in job measurement methodologies, including development of the social rate of return (SRR) methodology.

   - **Monitoring and Evaluation:** Given the special attention being paid to the project evaluation methodology and the framework for this performance-based project, and the importance of the results measurement and learning within the F4J SOP, it is expected that an M&E specialist will be needed.

   - **Consultant Requirements:** World Bank Group expertise will be complemented as required through the recruitment of specialized short-term consultants (STCs).

2. **Implementation Support Sequencing:** The F4J II and F4J III projects will ultimately be implemented with some overlap.

Table A2.1 Implementation Support Plan and Resource Requirements

Skills Needed	Number of Staff Weeks	Number of Trips	Comments
Project Management	96	12	Two per year, plus one trip for field-based co-TTL to Washington DC, and travel for project and knowledge exchange.
Jobs and Skills Development Expert	12	10	Two per year throughout project.
Gender[25]	12	5	One per year throughout project.
M&E	25	10	Two per year.
Social and Environmental Safeguards	8	5	Twice yearly; 50% trip.
Fiduciary	14	5	One per year.
Total	167	47	

[25] These numbers were estimated in consultation with the Gender CCSA.

ANNEX 3: Development Impact Bond 2.0 for Skills Development for-Employment

1. **Development Impact Bonds (DIB) are results-based financing tools that leverage private sector investors with enterprises that aim to deliver social outcomes.** The West Bank and Gaza have experienced high youth unemployment due to structural issues including, but not limited to lack of job opportunities; low levels of private investment; the small size of enterprises; suppressed wage growth, and skills mismatch. The effectiveness of the traditional government training and active labor market programs (ALMPs) were questionable given little evidence that there has been any relationship between these training programs and actual employment. There were often other issues, such as a mismatch between the training programs delivered by the government and the skillsets demanded by the market; the efficiency of resource allocation and use of resources; as well as substantial overlapping among these training programs.

2. **DIB 1.0 was designed and implemented under the F4J SOP to address some of these issues.** DIB 1.0 aimed to achieve sustained employment for youth in the West Bank and Gaza by providing tailored, demand-driven employment programs, and leveraging investments from other development partners and private sector investors. DIB 1.0 is the first DIB in the MENA region, and one of the first DIBs in the World Bank. It mobilizes private sector financing (through investors), and technical and management expertise (from service providers) to enhance skills development and employment outcomes among youth and women. DIB 1.0 is on track to connect about 1,240 young beneficiaries, of whom at least 30 percent must be female.

3. **Given the strong employment results for DIB 1.0, particularly its conversion and success rates of "verified" employment for those youth engaged, in addition to strong demand for employment services from both employers and service providers, DIB 2.0 is being proposed under F4J III.** DIB 2.0 will build on the existing structure that has already been set up under DIB 1.0 to continue delivering skills development programs with the aim of achieving sustained employment for youth**.** Some modifications to the design will be made to consider the lessons learned throughout the implementation under DIB 1.0, as well as by increasing the efficiency of program implementation. The detailed differences between the design of DIB 1.0 and DIB 2.0 will be further elaborated in the following paragraphs.

DIB Structure, Stakeholders and Outcome Funding Size

4. **One of the key innovative elements in the DIB instrument is that private investors pay upfront for interventions in order to achieve agreed-upon results, and work with delivery organizations to ensure that the results are achieved.** This is different from the traditional model, where such an intervention is usually financed by donor funding. The upfront funding by the private sector ensures that all key stakeholders have "skin in the game" and are incentivized to achieve the targeted results in order to obtain their return on investment (ROI). Once they achieve the targets, a third-party independent verification agent (IVA) verifies the results. Only when the results are independently verified, the World Bank (which serves as the Outcomes Funder of the DIB, along with the PA) makes payments to investors. This outcome/results-based approach, combined with the IVA, improves service quality and accountability, providing assurance that the funds have been used for the intended purposes. The F4J DIB is not only the sole results-based employment program in the West Bank and Gaza as well as in the region; it is also the only program that relies on independently verified results.

5. **Once the payments for the DIB services are made by the private investors, they are held in a Special Purpose Vehicle (SPV).** The SPV was created under F4J I, and it has been operating and implementing the DIB instrument under F4J II. Financing flows through the DIB SPV in two ways. First, a working capital investment goes from private investors to the SPV, which then pays service providers to finance program delivery. Second, once outputs/outcomes are verified, the investors are paid as per the Outputs and Outcomes Tariffs previously agreed upon. Payments are based on tariffs based on international experiences, in which a fixed payment price for defined outputs and outcomes is defined. Tariffs are designed to encourage employment outcomes instead of output-based results such as training or other employment services. Consequently, the incentives of the investors are realigned toward outcomes, rather than on program expenditures and inputs, as in traditional programs.

6. **In DIB 1.0, four investors (EBRD, FMO, PIF, and SDO) invested $1.8 million in the DIB SPV, which served as the upfront capital to pay for the training activities delivered by selected service providers.** Results are claimed by the service providers on a periodical basis for program activities (training and job creation). Once results are verified by the IVA , DAI, on behalf of the Ministry of Finance (MoF), would serve as the outcome funder (with World Bank funding) to pay back these investors. The outcome contract fund size started at $5 million and has increased to $6.25 million.

7. **Role of IVA:** While the DIB program aims to deliver sustained employment outcomes, the investors will get repaid once outputs and outcomes are achieved and verified by the IVA. IVA performs activities on the output and outcome verification during the course of DIB implementation. For DIB 1.0, the IVA process consists with desk-based review (for both outputs and outcomes) and the field-based review (for outcomes). During the desk-based review, IVA will i) compare the data recorded in the DIB manager report to its related supporting documents, ii) verify that beneficiary included in certain stage has already passed the previous stage, iii) verify that employment is related to training plan and within the relevant sector, and iv) verify the existence of organization official registration number and certificate. Field-based review is conducted over 70% of the outcomes claimed. IVA's procedures include i) performing phone calls or/and site visits to the beneficiaries and employers to verify their existence, accuracy and completeness of data in the DIB manager report, and Validity of the supporting documents/evidences provided by the service providers at the time of claims. Lastly, IVA's engagement is undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements.

8. **In DIB 2.0, the overall structure of the DIB would stay the same.** However, instead of four investors, there may be three investors (EBRD, PIF, and SDO) for a total initial investment between $1.3-1.6 million. Total outcome fund size for DIB 2.0 will be $6 million. DIB 2.0 aims to achieve lower overhead and set-up costs, given that the DIB structure has already been set up under DIB 1.0, and the learning curve and faster mobilization leveraging the human resources and leadership expertise of the DIB SPV and service providers.

DIB Targeting Mechanism

9. **DIB 1.0 was designed to target youth aged 18 to 29 years old, with 30 percent female participation (compared to the local average of 16 percent).** Almost 95 percent of DIB beneficiaries hold a bachelor's or other diploma. DIB 1.0 also allows a cap of 25 percent for public jobs created[26], and a cap of 20 percent for

[26] DIB is not funding public jobs. Instead, DIB mainly finances skills development and training programs that are based on private sector

jobs created outside of the West Bank and Gaza.

10. **While DIB 2.0 will continue to focus on the same target groups described above, the target group will be broadened (with a cap) by expanding the DIB to reach underserved populations.** These include:

- Those above 29 who suffer chronic unemployment are no longer actively seeking employment, and may possibly be part of the World Bank's social protection programs.
- People completing a World Bank-supported subsidized cash-for-work program for those who lost employment during Covid-19.
- Underemployed youth who are working in menial jobs that are unrelated to their education and/or without possible career progression and are looking for ways to find better jobs.
- Women above 29 who have been out of the labour market for many years, usually after being married and having children, and who now wish to return to the labour market.
- Marginalized populations who are either less educated (e.g., not bachelor's degree holders), or who are not in the labour market due to physical or social challenges. This is most notably school dropouts and at-risk youth, who end up working as unskilled labour, not only in Israel but also even in the Palestinian labour market (for example, construction workers, car cleaners, etc.).

DIB Programs

Broader Programs Beyond Training

11. **DIB 1.0 relied heavily on training, and was especially focused on technical training.** This has been reflected both in the verification framework and the business development of each employment program. While the training-focused pathway to employment was effective and was appreciated by many employers, and even though training topics ranged from technical skills to business and soft skills based on the industry targeted and employer needs, this model had its limitations. With its emphasis on the training element as a prerequisite component, it did not necessarily cater to all employers and youths, particularly those furthest from employment with more complex circumstances. For example, some employers would need employee training for their specific machinery, which a training center might not possess; in such cases, on-the-job training would be more appropriate.

12. **Taking the lessons learned from DIB 1.0, it is proposed that while DIB 2.0 will still offer technical training based on employers and youth needs, it will not be limited to technical training.** Other forms of additional services, including training in soft skills, on-the-job training, internships, and/or job intermediation (with personal development and work preparation) will be further developed, and customized for each sector based on both youth and employer needs. These add-on services will be effective in enhancing vocational and personal development, which could lead to sustained employment especially for youth who are distant from the labor market. Coaching services would benefit those who have already obtained the relevant technical/business/soft skills and would like to further improve their current level of performance. Mentoring services could help youth determine longer-term career objectives. Short and concise internships and/or on-

market demand. However, in the rare circumstances that beneficiaries pursue employment in the public sector (e.g. public hospitals and public schools), this would be beyond the program's control. The project has embedded a cap of 25% to limit jobs created in the public sector for this purpose. Currently, less than 10% of the jobs generated by the DIB under F4J II are in the public sector.

the-job training could help target semiskilled laborers. These tailored services would also be more effective for more disadvantaged and marginalized beneficiaries: for example, those who suffer from shyness, introversion, learning difficulties, poor economic status, poor access to internet connection, lack of equipment, and the like.

13. **In other words, DIB 2.0 will be positioned as a “Skills Training and Employment DIB” that emphasizes employment as opposed to just training,** in order to shift the culture of the services and raise the impact of the DIB, which will now offer more personalized services, including but not limited to training.

West Bank vs. Gaza

14. **DIB 1.0 focused on programs in the West Bank.** Currently, two of DIB 1.0 service providers are considering a limited scale pilot in Gaza in 2023 to assess the viability for DIB implementation. DIB 2.0 will also allocate about 16 percent of the outcome funding size to programs in the Gaza Strip.

15. **Initial findings from consultations with services providers reveal the following about the work in Gaza:**
    - Youth/beneficiaries are relatively more committed to training in Gaza, compared to in the West Bank.
    - Employers do not adhere to labour law requirements, especially regarding minimum wage. The government in Gaza also follows the old (lower) minimum wage, which was increased in 2022 in the West Bank.
    - The labour market, particularly for youth, is distorted by the level of subsidies offered, with donor money encouraging this subsidized employment.
    - Employment contracts for entry-level positions are often immediately terminated during times of crisis, which usually affects wide parts of the Gazan economy.
    - Although ICT remains a promising sector in Gaza, and the one creating the biggest buzz, it is highly saturated with donor support, leaving little room for the DIB to focus on it in Gaza.
    - Due to the highly informal nature of the Gazan economy, among other factors, job documentation requires further contextualization of the verification framework in order to fit the situation in Gaza.

16. **DIB 2.0 will apply lessons learned from the above-mentioned pilot in Gaza to better inform the design of services in Gaza.** While tariffs for DIB 2.0 for both the West Bank and Gaza are yet to be determined, it is highly likely that Gaza will have a different tariff than the West Bank given the more challenging operating environment, lower performance targets, and higher cost of training, among other factors.

Sectoral Focus

17. **DIB 1.0 worked with 9 service providers, and 13 subprograms spanning the Health, Education, Engineering, ICT, Furniture, Customer Service, Business, and Finance sectors.** It’s worth mentioning that DIB 1.0 has served specific niche sectors that other donors have overlooked, including Doctors, Health and Safety, and Materials Quality.

18. **DIB 2.0 will be open to all sectors in the West Bank and Gaza, and will continue to serve the above-mentioned sectors while also exploring opportunities in new sectors based on market demand and the sectors’ impact on West Bank and Gaza’s economy.** So far, DIB 2.0 has already received requests from various new sectors, including retail, light manufacturing, and construction.

DIB Key Outputs/Outcomes and Results

19. **DIB 1.0 had six output and outcome indicators: acceptance to the program; start of training; completion of training; job start; 3-month job sustainability; and 6-month job sustainability.** Currently, DIB 1.0 is on track to overachieve its employment targets, and it has achieved very good results in the number of female beneficiaries, which has exceeded the 30 percent targeted rate in all six key performance indicators (KPIs).

20. **DIB 1.0 has shown strong employment results across various sectors.** As end of March 2023, 1,138 people have been accepted into the program (46 percent of them female); 508 have started a job (40 percent of them female); 442 people have achieved 3-month job sustainability, and 368 6-month job sustainability.

21. **DIB 2.0 will have just five output and outcome indicators, since the "acceptance" and "training start" will be merged into one milestone.** The female participation target will increase to 35 percent. Based on the results achieved under DIB 1.0 and its outcome funding size, DIB 2.0 will target accepting and training 1,250 people, out of which 560 will start a job; 470 will achieve 3-month job sustainability, and 400 will achieve 6-month job sustainability. Table A3.1 demonstrates the KPIs and Targeted Results for DIB 2.0.

Table A3.1: KPIs and Targeted Results for DIB 2.0

KPI	Targeted Results	Conversion Rate
Acceptance & Training Start	1,250	NA
Training Completion	1,025	82%
Job start	560	45%
3-month job sustainability	470	38%
6-month job sustainability	400	32%

Private Capital Mobilization

22. **DIB 2.0 will need total investment of between $1.3-1.6 million.** Two out of the three (PIF and SDO) are private sector investors, while the other investor is a multilateral agency (EBRD). Therefore, based on the World Bank's PCM methodology, the total private capital mobilization will be approximately $1.2 million.

ANNEX 4: Investment Co-Financing Facility

COUNTRY: West Bank and Gaza
Finance for Jobs III

Background on Component

1. **The ICF is a risk-sharing facility that provides co-financing to commercially viable medium-size private sector investments that would not viable otherwise due to the high-risk environment in the West Bank and Gaza.** Projects under this component are selected following an open call for proposals. The ICF allocation needs to address the following eligibility requirements: (i) the proposed investment should be a commercially viable venture; (ii) the investment is compliant with World Bank Group safeguard policies; (iii) the ICF allocation clearly addresses a particular FCV risk, market, or institutional failure that is the cause for the investment not proceeding. In addition, applications to the ICF facility will need to identify prospective job creation, taking into account estimated direct and indirect job creation arising from the investment, alignment with the Palestinian NDC, and must apply the Social Rate of Return (SRR)[27] methodology (See Box A4.1 for more details).

Key Results to Date

2. **As of May 2023, a total of $54.4 million in private capital has been raised across 14 projects, and the overall process has been streamlined.** A technical assistance component was included in the most recent additional financing in 2021, to help potential applicants in fulfilling the document requirements for the ICF grants. It should be noted that the ICF covers both the West Bank and Gaza, and has signed its first grant agreement with a W-SME (Three F Veterinary Project), with plans to expand under F4J III.

Table A4.1: List of Projects under the ICF component of F4J II

Project	Total project cost (US$ mln)	Proposed Grant size (US$ mln) ICF	Private Capital Mobilized (US$ mln)
PRICO	11	2.0	2.9
Massader	35	2.0	15
Al Dalya Seedless Grape	3.3	0.3	3
Fusion's Broadband Project	5.5	0.8	4.7
Afana's Hatchery and Poultry Processing Project	4.7	0.6	4.1

[27] Social Rate of Return Methodology, which is based on an economic analysis that takes into consideration labor externalities but also jobs-linked externalities.

BITC Garden project	**3.2**	**0.3**	**2.8**
Al-Forat Agricultural Company’s	**2.56**	**0.4**	**2.2**
Abu Eita's Dairy Production Hub	**2.9**	**0.4**	**2.5**
MADA Al-Arab Company	**8**	**1.5**	**6.5**
THREE F® Veterinary Project	**1.4**	**0.36**	**1.1**
PETRA Glass Company	**1.1**	**0.3**	**0.8**
Waha Feeds Co.	**4.0**	**0.5**	**3.5**
Sanabel Al Nasar Co	**2.0**	**0.4**	**2.4**
Top Roof Tiles Co.	**4.8**	**0.4**	**4.4**

3. All 14 projects are at different stages of implementation.

1. PRICO Operations and Maintenance Ltd. This project involved the installation of Solar Photovoltaic (PV)[28] systems on the rooftops of factories and warehouse facilities in the Gaza Industrial Estate (GIE). The investment was affected by the Gaza Conflict in May 2021, which destroyed ten hangars and some of the solar panels. As of Q1 2023 reconstruction of the ten destroyed hangars has been completed, and the reinstallation of the project's damaged PV capacity of 1.4MWp will start shortly.

2. Massader. This project is developing about 28 MW rooftop PV systems for approximately 400 public schools across the West Bank over four years. The project is divided into 8 phases, of which 4 have been completed.

3. Al Dalya for Agricultural Investment. This project includes the expansion of the areas for cultivation of seedless grapes by 280 *dunums* from adjacent land, of which 250 are cultivatable. Located in Area C of the West Bank, it is a successful example of investments supported due to the challenging environment in the region.

4. BITC Garden Co. This project involves establishing a new pickling facility in Jenin. BITC has completed the procurement process, and the project is planned to be closed by September 30, 2023.

5. Fusion Internet. This project endeavors to plan, build, and operate an independent fixed broadband network that provides comprehensive, affordable, reliable, and high-quality internet in rural areas of the Gaza Strip. Fusion's Broadband Internet Service Provider (ISP) Infrastructure project has finalized the installation of 246 microwave links and became fully operational on December 7, 2022. As a result, more than 5,000 new customers subscribe to the network.

6. Afana Holding. This project will establish a modern poultry production and processing facility in the Gaza Strip. The project preparation has concluded in the end of Q1 2023 with the installation of poultry

[28] Although solar panels were financed by the first-mover projects under F4J II, this has not been a central focus of F4J II. The primary investments under F4J III have not yet been determined, and will be based on specific requirements. It is unlikely that solar panels will receive significant funding, if any. The project will comply with all applicable environmental and social standards.

processing equipment and refrigerators.

7. Al-Forat Agro Inv. This project aims to rehabilitate 100 hectares for agricultural crop farming in Tubas. The project has reclaimed and leased 100 hectares (1,000 *dunums*) and is currently procuring the equipment for the center irrigation system and irrigation network. The project has also completed the installation of a 2 MW PV system.

8. Abu Eita and Sons Co. This project aims to establish a state-of-the-art Dairy Production Hub in Gaza, through vertical integration of the dairy value chain. The project has finalized the technical and financial report for the received bids to procure the packaging machines (partially covered by the ICF grant), and the construction of a cattle farm is completed.

9. Mada Al Arab Co. This project entails the construction of 700 km of fiber-optic infrastructure across the cities of Ramallah, Al-Bireh, and Bethlehem to ease access to the internet and increase the quality and affordability of internet services to more than 100,000 users in the West Bank. The ICF grant is covering the first-year cost of leasing 700 km of the existing electricity infrastructure to implement the network.

10. THREE F Veterinary Pharmaceuticals Company LTD in Gaza Strip, a W-SME, will establish a factory producing veterinary drugs and medications for livestock medications for cattle, sheep, goats, calves, turkeys, and broilers, improving the food security and quality. The project is under construction, and the closing date is February 28, 2025.

11. Petra Glass Co in West Bank is upgrading its processing facility with new machinery and refill inventory with raw materials. The necessary infrastructure work for the expansion is completed, and the new machinery will be introduced in Q2 2023. The closing date is February 28, 2025.

12. Al Waha Feeds Co in Gaza Strip will provide lower-priced animal feeds with secure sustainable supply. The ICF grant will partially cover the costs of the facility's new production line. The project has started obtaining permits and licenses for construction design, and the procurement process for equipment and machines has started. The closing date is February 28, 2025.

13. Sanabel Al Naser Co. in the West Bank is expanding and upgrading infrastructure with a new building, warehouses, PV system, and cold storage rooms. The F4J ICF grant will partially cover the costs of the facility's new machines. The project has started construction of the building and warehouse. The closing date is February 28, 2025.

14. Top Roof Tiles Co in the West Bank is planning to establish a new facility for producing concrete roof tiles and Polyurethane sheets. The project is completing engineering studies for the factory, and the closing date is February 28, 2025.

Box A4.1 Social Rate of Return Methodology

A financial analysis assesses the financial flows generated by a project and calculates the Internal Rate of Return (IRR). Private investors will elect to proceed with an investment based on the achievement of a targeted risk-adjusted hurdle IRR. From a private perspective, the rate of return on investments might be low in FCVs due to obsolete technology, lack of infrastructure, inadequate skills, high political risk, and lack of adequate market institutions; hence the investment might not take place. Private investments can also have a social return and contribute to well-being for individuals as well as society and the economy. Taking these effects into account requires assessment beyond the net costs and benefits to the investor. This entails a wider economic appraisal: whereas the financial rate of return is the internal rate of return calculated when all the inputs and outputs are reckoned at market prices; the economic rate of return (ERR) is the internal rate of return based on economic opportunity costs. Social and private profitability might diverge because private agents respond to market prices, which may be distorted by market failures of different sorts. That is why a standard Cost Benefit Analysis (CBA) is used to calculate the ERR; adjust prices using appropriate economic opportunity costs; and determine whether a project is socially profitable.

The aim of the SRR analysis is to go one step further in the economic analysis to fully capture jobs-related benefits to include social externalities from jobs that benefit society at large, not only individual benefits from jobs already captured in the ERR. A job can go to a particular class of worker (such as a poor person, a woman, a young person, or a person from a discriminated group), thus might lead to additional benefits for society. The rationale is that an extra dollar will give more benefit to a person who is poor than to someone who is well-off (based on the principle of diminishing marginal utility of additional consumption). Furthermore, having a job affects key elements of social cohesion, such as trust and civic engagement. A job might also enhance future growth rates in the economy, if it is in a particular industry or place, or if it has strong links to sources of technological growth.

There are three specific types of externalities that derive from the creation of jobs that will be targeted by the F4J SOP: (i) jobs for women, which are likely to have a positive impact on the accumulation of human capital for their children (because women tend to invest more than men in the education of their children and in the household well-being); (ii) jobs for youth and for low-skilled/vulnerable workers, which are likely to reduce expenditures on social assistance programs, lower crime rates, promote social stability, and counter radicalization and social violence; and (iii) jobs for those in more vulnerable economic areas, where the social impact of a job can, *prima facie*, be greater in terms of household well-being and social cohesion. This category of social return is henceforth referred to as “distance from market” externality.

The challenge is that there is no adequate market proxy for quantifying the benefits to society of “job externalities.” Any estimate would be highly sensitive to the specific values of a given society. In the absence of an established methodology, an empirical approach grounded in an estimation exercise is needed to generate representative and socially acceptable estimates of the different externalities. To achieve this, Discrete Choice Experiment (DCE) surveys will be undertaken in the West Bank and Gaza to measure preferences. A survey will be used to determine specific weights reflecting the social value for different types of jobs. In the survey, alternative policies/programs for job creation are presented, that lead to the creation of different types of jobs. Respondents are asked to indicate which alternatives in each scenario they prefer the most, and which the least. This will help to fill this gap by generating information on preferences and trade-offs among job outcomes. The results of the DCE will result in r values to be applied to the stream of benefits in the CBA, allowing for the calculation of an SRR that captures the externalities of job creation.

ANNEX 5 Development Impact Bond - Labor Force Background and its relationship to cost per job created in West Bank and Gaza

A. DIB beneficiaries' average income compared to minimum wage in the West Bank and Gaza

1. The average monthly income of DIB beneficiaries is 2,850 ILS[29], 1.5 over the newly enacted (higher) minimum wage in the West Bank and Gaza (1,880 ILS), and 30 percent over the average monthly salary in the private sector in the West Bank and Gaza of 2,150 ILS[30] (excluding jobs in the Settlements and/or Israel). This means they are high-value self-sustainable jobs that do not require external subsidies, as is demonstrated below.

2. The average earnings of the DIB beneficiaries in only one year are approximately US$10K = 34,200 ILS = 2,850 x 12 months; this demonstrates the potential long-term income-earning value of the jobs the DIB has invested in for the benefit of youth. This annual earning is also very close to the cost per job that is paid for by the Outcomes Funders.

3. It is also worth noting that over 40 percent of employed people in the West Bank and Gaza do not earn the minimum wage (19 percent in the West Bank, and 89 percent in the Gaza Strip), while noting that in Gaza, the old minimum wage is still legally applied (1,450 ILS). The labor market is also highly informal; over 65 percent of employment within the private sector is without any formal contracts or documentation[31].

B. Average cost per job created

4. To better address this hotly debated issue, it is worth noting that the range of cost per job varies greatly, based on 1) country; 2) sector; 3) jobs being counted; 4) direct cost of delivery or overall costs (including management costs); 5) cost per trainee, or cost per job[32]; 6) whether the job is subsidized or not; and 6) most importantly, whether the cost per job is for jobs that result from direct investment, or the Active Labor Market Program (ALMP)[33].

5. **Below we analyse each factor and give examples.**

- Country: Although the West Bank and Gaza is developing, it is currently ranked #52 on the cost-of-living index[34], above several European countries (including Spain, Hungary, Russia, and Armenia), and several Gulf countries (KSA, Oman, and Kuwait), which means that comparisons must be contextualized.

- Cost per job varies significantly by the sector, especially depending on whether it is a labour- or capital-intensive investment/sector, as illustrated in the examples in Table A5.1.

29 As calculated by the DIB SPV from the available data for all employed youth, which is verified by the IVA.
30 https://www.maannews.net/news/2057408.html
31 https://www.pcbs.gov.ps/site/512/
32 Cost per job include the cost of direct labor costs, direct material costs, indirect material costs, and total overhead costs on a specific job, while cost per trainee only take into account direct costs associated with the training activities.
33 World Bank Blog
34 *https://www.numbeo.com/cost-of-living/rankings_by_country.jsp*

- In ALMP programs, the jobs counted are usually only direct jobs, although some programs do count subsidized jobs, and/or internships as jobs, which the DIB does not. In contrast, when counting jobs created as a result of investments, the investors or funders count both direct and indirect jobs created along the value chain. Despite this, the cost per job varies significantly, and is obviously higher than that of the AMLP.

- Some subsidized jobs appear to be less costly per job, but are almost immediately terminated once the subsidy is over. The direct cost alone for subsidizing a staff member at the minimum wage, is $3.5K[35], for six months. Despite it being less costly, once all of the other costs (SPs and other management costs), are accounted for, the cost will easily exceed $5-6,000 per job, but these are jobs that do not produce any income for youths beyond the subsidized period.

- Cost analysis must take into account whether the cost calculated is the cost of service delivery or overall cost (including management costs). It is imperative to differentiate between the two and calculate overall costs when assessing cost per job.

- Cost per trainee does not automatically translate into cost per job, and very few employment programs even track the difference. Cost per trainee is the total cost divided by number of trainees, but training someone does not necessarily translate into creating a job. Under the DIB, the cost per trainee is approximately $5.9K, which is comparable to the local average.

6. **The above analysis seems to be confirmed by a widely quoted World Bank blog[36] by David Robalino, and an analysis done by economist Mohamed Marouani, an Associate Professor at the University of the Sorbonne.** The analysis reaches the same conclusions and similar costs, and warns that the cost per job indicator may not be the right one for measuring the impact of job creation policies; rather the social rate of return associated with the intervention may be a better measure.

---

35 $3.5K = $27/day x 22 days/month x 6 months or $570 (equivalent to 1,880 ILS) x 6 months

36 *https://blogs.worldbank.org/jobs/how-much-does-it-cost-create-job*

Table A5.1: Cost per jobs, through investments in the West Bank and Gaza, the Arab world, and other developing countries

Country, Year	Cost per Job	Notes	Source
West Bank and Gaza, 2013	$21.5K on average	Multiple sectors, highest at $20.5K for Industrial sector, lowest at $13.8K in retail.	*Al-Jazeera Channel, Baker Ishtayyeh*
West Bank and Gaza, 2006	$25K-30K on average	Multiple sectors. See footnote 13, page 12	*PCBS, Dr. Basem Mak'houl study*
West Bank and Gaza, 2006	$20K-25K on average, depending on sector	Multiple sectors. See pages 29 and 36, footnotes 2 and 3.	*Gaza employment plans, Dr. Nasrallah & Dr. Sourani study*
Jordan, 2016	$4,500, $6,750 once adjusted to wage differential in West Bank and Gaza.	Industrial sector, which has the lowest cost compared to other sectors. Minimum wage in West Bank and Gaza is 1.5 times higher than Jordan.	*Jordan Investors' Society*
Jordan, 2012	$32K without adjusting to wage differential.	Weighted average for multiple sectors, based on IFC Jobs Study	*IFC Jobs study* + *Economic analysis blog comparing costs in multiple countries*
Egypt, 2022	$3,500-15,500, $24,500-110,000 once adjusted to wage differential in West Bank and Gaza.	Industrial sector (textiles, ceramics, etc.). Minimum wage in West Bank and Gaza is 7 times higher than in Egypt.	*Textile exporting Board, Egypt Stock exchange News*
Egypt, 2016	$10.5 on average, $73.K once adjusted to wage differential in West Bank and Gaza.	Multiple sectors. Minimum wage in West Bank and Gaza is 7 times higher than in Egypt.	*General Assembly for Industrial Development, Egypt*
KSA, 2012	$1M = 3.6M Saudi Riyal	Multiple sectors, through government subsidies.	*Arab Economic News*
Tunisia, 2018	$30K, resulting from a $10M investment.	Average for all sectors, counting only direct jobs, since indirect jobs need additional investments of their own.	*World Bank Blog*
UK, 2015	28-51K pounds	Multiple sectors. Counting direct and indirect jobs	*Homes and Communities Agency, UK*
USA, 2010	$112K	Multiple sectors. Counting direct and indirect jobs	*Upjohn Institute for Employment Research*

Annex 6: Economic and Financial Analysis

1. **The project team conducted an economic and financial analysis to determine the value of anticipated benefits relative to the costs associated with this project.** The project NPV is estimated at US$9.5 million at a 15 percent discount rate[37] and the ERR at 32 percent over a ten-year period including implementation. This estimate is based on investments under Components 1 and 2, accounting for approximately 83 percent of the project. Including the project management costs yields a total project NPV of US$7.0 million and an ERR of 26 percent.

2. **In reference to this valuation estimate, several points are worth noting.** First, this calculation is indicative, using expected average parameters for the component beneficiaries and the resulting impact of the component activities. While these assumptions are based on the project team's discussions with potential beneficiaries along with results of other projects and economic literature, they are not precise representations of the impact that the project will have. The exercise of financially modelling projected impacts helps to ensure that Project funds are being allocated to investments and activities that will provide a return to the local population, along with helping to identify key risks and thresholds for the project to achieve its desired impact. Additionally, international development projects often target regions and sectors where the risk is high since these types of interventions can take on higher-risk investments because of the social good that could result from them; as such, financial valuations of these investments may not be as high as those in other regions, yet the social and/or environmental value of such investments could be higher.

3. **That said, our methodology (detailed below) accounts only for the project's impact on direct beneficiaries rather than using a broader multiplier approach which would encompass positive externalities and spillover effects, along with overall growth of the entrepreneurial ecosystem.** Component 1 will finance a skills development program to address high youth unemployment rates in the West Bank and Gaza. Component 2 provides risk-sharing grants to high-potential projects that are expected to be commercially sound, create jobs, and enable private sector investment. The economic analysis of this project is based on reduced unemployment rates for DIB beneficiaries and the creation / growth of ICF projects, along with subsequent jobs created through the ICF. Details on the analysis for each component are as follows.

4. **The value of such externalities is difficult to estimate; project investments could result in larger-scale private and public investments.** The social rate of return could be even higher since private sector investment could reduce over time without this project and other development initiatives addressing key bottlenecks on the ground. Project investments could also increase employment opportunities through growth of the entrepreneurial and investment ecosystem. Additionally, the climate change adaptation and mitigation impact of green projects created under the ICF component could further amplify the social returns. Finally, the impact of increased opportunities in conflict zones is likely to contribute to greater local stability.

5. **Rationale for public sector involvement: The Project design addresses key constraints impacting employment and private capital mobilization in the West Bank and Gaza.** The DIB component provides skills development for beneficiaries to enable their sustainable employment, while the ICF grants reduce the risk associated with new subproject investments to allow them to move forward. As such the Project spurs both increased youth employment and growth of the entrepreneurial ecosystem in the West Bank and Gaza.

[37] The estimated risk-adjusted discount rate. The cost of debt capital in Palestine is estimated at 8%; however, given the high risk and volatility, the discount rate has been increased to 15%. This is similar to the discount rate used for other World Bank FCV projects.

Without this demonstration effect, private financing would be unavailable, making the use of public financing critical to address these binding constraints and bottlenecks. This will also allow for further re-investment, amplifying the impact of the Project.

Component 1: Development Impact Bond 2.0 for Skills Development for Employment

6. **Based on our analysis, the NPV for Component 1 is estimated at US$4.4 million with an ERR of 28 percent.** The economic analysis of this Component is based on lower unemployment rates amongst training student beneficiaries. These estimates are based on the following parameters:

- Number of beneficiaries: The analysis estimates that the Project will support 1,250 training beneficiaries as noted in the Project results framework. These beneficiaries are expected to be distributed as shown in the table below.

- Channels of impact: The primary assumption in the analysis is that Project beneficiaries will demonstrate a lower unemployment rate than without the Project investments. Based on DIB-1 employment rates, the analysis assumes that the unemployment rate for beneficiaries will reduce by 48 percent (from the assumed 80 percent without the project interventions to 38 percent) within one year of the training due to the assistance provided by the Project. Based on results from the previous iteration of the DIB program, this reduction in the unemployment rate may actually be considerably higher. Also worth noting is that since the DIB program does not finance the actual salaries to be paid, these jobs are more likely to be sustainable than many other job training programs currently in operation.

- Beneficiary salaries: This employment is monetized based on a range of salaries observed in the previous DIB 1 program. The West Bank and Gaza groups are split into low, mid and high groups based on expected salaries upon completing the DIB training. For the West Bank groups, beneficiaries in the low group are assumed to be paid salaries set at minimum wage, while the mid and high groups are set at the average salary observed in DIB-1 and the average of the top third of salaries paid under DIB-1. For the Gaza salary groups, average wages are expected to be considerably lower. The low group is expected to be paid the observed minimum wage for Gaza at 699 shekels per month (equivalent to US$189). The high group average salary is set at the overall Palestine minimum wage of 1,880 shekels per month (equivalent to US$508), with the mid group halfway between the two groups.

- Number of beneficiaries: For each of the aforementioned salary groups, beneficiary estimates are based on the team's estimates of pipeline and informed by the results of the DIB-1 program.

7. **Additional assumptions are provided below:**

	West Bank			Gaza		
Salary group	Low	Mid	High	Low	Mid	High
Average monthly salary (US$)	508	866	1,174	189	348	508
Number of beneficiaries accepted into the DIB program	230	550	270	140	50	10

Unemployment rate w/o project intervention	80%	80%	80%	80%	80%	80%
Unemployment rate w/ project intervention	38%	38%	38%	38%	38%	38%

8. **With the assumptions noted above, the Project valuation and other key metrics are estimated as follows:**
   a. NPV at a 15 percent discount rate: US$4.4 million
   b. ERR: 28 percent
   c. NPV at a 12 percent discount rate: US$6.5 million
   d. NPV at a 10 percent discount rate: US$8.3 million

9. **Sensitivity analysis:**
   a. Increasing the unemployment rate for all beneficiaries to 50 percent reduces the Component ERR to 17 percent.
   b. Reducing the unemployment rate for all beneficiaries to 20 percent increases the Component ERR to 44 percent.

Component 2: Investment Co-Financing Facility (ICF)

10. **Based on our analysis, the NPV for Component 2 is estimated at US$5.1 million with an ERR of 39 percent.** This estimate is based on the following parameters:

(a) Number of beneficiaries: The number of beneficiaries included in this analysis is based on projections made based on the previous iterations of the ICF program.

(b) Channels of impact: The primary assumption in the analysis is that ICF projects would not exist without the grant provided through the Project. As such, the economic impact of the ICF grants can be estimated based on the projected income and growth of these projects. The revenues associated with these projects are also expected to create jobs.

(i) Reduction in failure rate: The analysis assumes that none of the projects would move forward without the ICF grant—a criterion for receiving ICF financing. With the ICF grant, the analysis assumes a 20 percent project failure rate. Previous iterations of the ICF program have yet to show subproject failure; as such, the analysis assumes a low failure rate to maintain conservatism.

(ii) Direct job creation rate: In addition to the initial number of jobs created by project size noted in the table below, the analysis assumes that one job will be created for every additional US$50,000 in revenues created by the subprojects. To maintain the most conservative analysis, these jobs are assumed to be paid at the Palestine minimum wage of 1,880 shekels per month (equivalent to US$508).

(c) Timeframe of impact: The job creation estimates noted above are applied with a two-year delay.

Type of project	Large	Medium	Small	Women-owned or led
Number of projects	2	3	3	2
Average annual project revenue (US$)	5,000,000	2,500,000	1,000,000	250,000
Cost as percentage of income	85%	85%	85%	85%
Initial number of jobs created	150	75	30	10
Additional job creation rate ($ revenue per job created)	50,000	50,000	50,000	50,000
Average monthly salary (US$)	508	508	508	508
Annual revenue growth	20%	20%	20%	20%

11. **With the assumptions noted above, the Component valuation and other key metrics are estimated as follows**:
    a. NPV at a 15 percent discount rate: US$5.1 million
    b. ERR: 39 percent
    c. NPV at a 12 percent discount rate: US$6.9 million
    d. NPV at a 10 percent discount rate: US$8.4 million

12. **Sensitivity analysis:**
    a. Reducing the estimated number of ICF projects by 50 percent reduces the Component ERR to 14 percent.
    b. Increasing the estimated number of ICF projects by 50 percent increases the Component ERR to 60 percent.
    c. Increasing the job creation rate by 20 percent increases the Component ERR to 40 percent.
    d. Reducing the job creation rate by 20 percent reduces the Component ERR to 38 percent.
    e. Increasing the failure rate of ICF projects by 50 percent reduces the Component ERR to 33 percent.
    f. Reducing the failure rate of ICF projects by 50 percent increases the Component ERR to 44 percent.

13. **Private capital mobilization: The ICF component is expected to crowd-in at least US$25 million in private capital mobilization.** Since this PCM can be considered a cost required to initiate the ICF project investments, the base analysis above excludes the PCM contribution. Including this PCM as an additional benefit to the Component investments increases the NPV to US$18.0 million and ERR to 229 percent.

14. **The above assumptions are supported by a wide range of studies in different regions on the impact of different types of support services for SMEs.** Supporting studies for these assumptions include:

    a. A World Bank MSME support project in Togo showed a return of 30 percent for beneficiaries, with a 40 percent return for female business owners in a randomized control trial conducted as part of a World Bank MSME support project in Togo[38]. Other projects that have implemented similar personal initiative

[38] World Bank. 2018. "New Mindset, Increased Profits: Lessons from an Innovative Entrepreneurial Training in Togo." https://www.worldbank.org/en/news/feature/2018/01/18/new-mindset-increased-profits-lessons-from-an-innovative-entrepreneurial-training-in-togo

training modules have demonstrated high potential returns from such interventions, especially for women-owned or led businesses[39].

b. Sarder, et al. (1997) study "The Importance of Support Services to Small Enterprises in Bangladesh" find 5-16 percent increase in employment, sales and productivity with technology adoption support provided to SMEs.
c. Tan & Lopez-Acevedo (2005) look at the impact of SME programs in Mexico using panel firm data and find that 9-14 percent improvement in training and 9 percent improvement in technology absorption have been achieved. Various SME programs – Business Advisory Services, Technology Development, Credit, Supplier Development (1992 – 2000) in Chile presented similar results.
d. Lopez-Acevedo & Tan (2010), "Impact Evaluation of SME Programs in Latin America and Caribbean" found an 8 percent increase in wages and a 9 percent increase in productivity because of these programs.
e. Bloom et al. (2013)[40] demonstrates the importance of supporting firm managerial capabilities to improve firm productivity and growth based on evidence from India. In a similar vein, Bruhn et al. (2013)[41] document the impact of this type of support based on a randomized trial conducted in Mexico. Evidence from Colombia shown in Iacovone, et al. (2019)[42] also supports this underlying thesis in support of the impact of improving firm managerial capabilities. Based on a cross-country review, business training programs also help to increase SME profits and sales (McKenzie 2020)[43]. Bloom et al. (2017)[44] underscores the importance of interventions to support management capabilities, technology adoption and digitalization.
f. The financing gap for MSMEs is vast, especially in emerging markets. Providing additional financing and/or addressing risks (both real and perceived) can stimulate the overall credit market.[45] Based on a study in Yemen, McKenzie et al. (2015)[46] notes that matching grant and other financing opportunities for SMEs help to incentivize firms to make investments in innovation that would otherwise be less likely.
g. Business plan competitions which implement a marketing and screening mechanism also demonstrate positive results. A study of a program in Nigeria demonstrates that beneficiaries showed 20-37 percentage point increase in the likelihood of survival, 21-23 percentage point increase in the likelihood of having ten or more workers, and 23-25 percent increase in profits. A similar program in Kenya demonstrates short-

[39] World Bank. 2019. Profiting from Parity: Unlocking the Potential of Women's Businesses in Africa. Washington DC.
[40] Bloom, N., B. Eifert, A. Mahajan, D. McKenzie, and J. Roberts. 2013. "Does management matter? Evidence from India." *The Quarterly Journal of Economics* 128 (1): 1–51.
[41] Bruhn, M., D. Karlan, and A. Schoar. 2013. "The impact of consulting services on small and medium enterprises: Evidence from a randomized trial in Mexico." World Bank Policy Research Working Paper 6508. Washington, DC: World Bank.
[42] Iacovone, L., W. Maloney, and D. McKenzie. 2019. "Improving Management with Individual and Group-Based Consulting: Results from a Randomized Experiment in Colombia." World Bank Policy Research Working Paper 8854. Washington, DC: World Bank.
[43] McKenzie, D. 2021. "Small Business Training to Improve Management Practices in Developing Countries: Reassessing the Evidence for 'Training Doesn't Work'." *Oxford Review of Economic Policy* 37 (2): 276–301.
[44] Bloom, Sadun, Van Reenen. 2017. Management as Technology?, NBER Working Paper 22327; Bruhn et al. 2018. The Impact of Consulting Services on Small and Medium Enterprises: Evidence from a Randomized Trial in Mexico, Journal of Political Economy, 126, 2, 635-687.
[45] International Finance Corporation. 2017. MSME Finance Gap: Assessment of the Shortfalls and Opportunities in Financing Micro, Small, and Medium Enterprises in Emerging Markets. Washington, DC.
[46] Mckenzie, David; Assaf, Nabila; Cusolito, Ana Paula. 2015. The Additionality Impact of a Matching Grant Program for Small Firms : Experimental Evidence from Yemen. Policy Research Working Paper; No. 7462. World Bank, Washington.

term results that supported firms were twice as likely have an operational business and their sales and profits were 47 percent higher than those in the control group.[47]

h. A Harvard Business Review Study conducted by Anne Marie Knott calculates the impact of R&D and equipment investments in the US by estimating a Research Quotient (RQ) which defines a relationship between firm inputs (capital, labor, and R&D investments) and firm output (revenues) based on regression analysis of American firms. Their analysis estimates that a 10 percent increase in RQ results in an increase in market value of 1.1 percent, which can translate to a 10-20x multiple in firm revenues.

[47] World Bank: Competitiveness Policy Evaluation Lab Testing Interventions to Address Firm Constraints to Growth, November 2022.