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The World Bank

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Report No: PAD2120

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED GRANT

IN THE AMOUNT OF US$8 MILLION
FROM THE TRUST FUND FOR GAZA AND WEST BANK

WITH CO-FINANCING FROM THE STATE AND PEACEBUILDING FUND
IN THE AMOUNT OF US$1.5 MILLION

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

FOR A

FINANCE FOR JOBS II PROJECT

June 30, 2017

Finance and Markets
MIDDLE EAST AND NORTH AFRICA

CURRENCY EQUIVALENTS

(Exchange Rate Effective June 14, 2017)

Currency Unit =	New Shekel (NIS)
NIS1.00 =	US$0.28
US$1.00 =	NIS3.52

FISCAL YEAR 2017
July 1 – June 30

Regional Vice President:	Hafez M. H. Ghanem
Country Director:	Marina Wes
Senior Global Practice Director:	Ceyla Pazarbasioglu-Dutz
Practice Manager:	Jean Pesme
Task Team Leader(s):	Peter Mousley, Abdalwahab Khatib, Stefanie Ridenour

ABBREVIATIONS AND ACRONYMS

AS	Assistance Strategy
BDS	Business Development Services
CBA	Cost Benefit Analysis
CCSA	Cross-Cutting Solutions Area
CGE	Computable General Equilibrium
COI	Conflict of Interest
DA	Designated Account
D-Adv	Development Impact Bond Advisor
DCE	Discrete Choice Experiment
DEC	Development Economics Group
DFID	Department for International Development
DIB	Development Impact Bond
DIME	Development Impact Evaluation Initiative
DM	Development Impact Bond Manager
DPJC	Dialogue for Palestinian Jobs Creation
EE-MG	Entrepreneurship Ecosystem Matching Grant
EMP	Environmental Management Plan
ESMF	Environmental and Social Management Framework
ESO	Environmental and Social Officer
FCV	Fragility, Conflict, and Violence
FM	Financial Management
F&M	Finance and Markets (World Bank Group Global Practice)
F4J	Finance for Jobs
GA	Grant Agreement
GBP	British Pound
GDP	Gross Domestic Product
GIE	Gaza Industrial Estate
GOI	Government of Israel
GP	Global Practice
GRM	Grievance Redress Mechanism
IA	Implementation Agreement
IBRD	International Bank for Reconstruction and Development
ICA	Investment Climate Assessment
ICF	Investment Co-Financing Facility
ICT	Information and Communication Technology
IFC	International Finance Corporation
IFR	Interim Financial Report
IRR	Internal Rate of Return
IVA	Independent Verification Agent
MDB	Multilateral Development Bank
MDTF	Multi-Donor Trust Fund
MENA	Middle East and North Africa Region
MW	Megawatt
MIGA	Multilateral Investment Guarantee Agency

MOFP	Ministry of Finance and Planning
MTR	Mid-Term Review
M&E	Monitoring and Evaluation
OM	Operations Manual
PA	Palestinian Authority
PC	Project Counterpart
PDO	Project Development Objective
PIA	Project Implementation Agency
PPAB	Public-Private Advisory Board
PPD	Public-Private Dialogue
PV	Photovoltaic
SIB	Social Impact Bond
SME	Small and Medium-Sized Enterprise
SOE	Statement of Expenditure
SOP	Series of Projects
SP&L	Social Protection and Labor (World Bank Group Global Practice)
SPF	State and Peacebuilding Fund
SPV	Special Purpose Vehicle
SRR	Social Rate of Return
TA	Technical Assistance
TFGWB	Trust Fund for Gaza and West Bank
TTL	Task Team Leader
T&C	Trade and Competitiveness (World Bank Group Global Practice)
WA	Withdrawal Application
WBG	World Bank Group

BASIC INFORMATION

Is this a regionally tagged project?	Country(ies)	Financing Instrument
No		Investment Project Financing

[ ] Situations of Urgent Need of Assistance or Capacity Constraints

[ ] Financial Intermediaries

[✔] Series of Projects

Approval Date	Closing Date	Environmental Assessment Category
27-Jul-2017	29-Oct-2021	B - Partial Assessment

Bank/IFC Collaboration	Joint Level
Yes	Joint Project - involving co financing with IFC (loan, equity, budget, other) or staffing

Proposed Development Objective(s)

To test the effectiveness of selected financial interventions in incentivizing private sector investment and job creation.

Components

Component Name	Cost (US$, millions)
Development Impact Bond (DIB) for Skills Development and Employment	5.00
Investment Co-Financing Facility (ICF)	3.50
Entrepreneurship Ecosystem Matching Grant (EE-MG)	0.00
Project Management	1.00

Organizations

Borrower :	Ministry of Finance and Planning
Implementing Agency :	DAI Global, LLC

PROJECT FINANCING DATA (US$, Millions)

[ ] Counterpart Funding | [✔] Trust Funds | [ ] Parallel Financing

Total Project Cost:	Total Financing:	Financing Gap:
9.50	9.50	0.00
	Of Which Bank Financing (IBRD/IDA):	
	0.00	

Financing (in US$, millions)

Financing Source	Amount
State and Peace Building Fund	1.50
Special Financing	8.00
Total	**9.50**

Expected Disbursements (in US$, millions)

Fiscal Year	2018	2019	2020	2021	2022
Annual	1.65	2.32	2.64	1.94	0.95
Cumulative	1.65	3.97	6.61	8.55	9.50

INSTITUTIONAL DATA

Practice Area (Lead)

Finance & Markets

Contributing Practice Areas

Energy & Extractives
Jobs
Social Protection & Labor

Trade & Competitiveness

Climate Change and Disaster Screening

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

Gender Tag

Does the project plan to undertake any of the following?

a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF

Yes

b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment

Yes

c. Include Indicators in results framework to monitor outcomes from actions identified in (b)

Yes

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

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

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

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	✔	
Natural Habitats OP/BP 4.04		✔
Forests OP/BP 4.36		✔
Pest Management OP 4.09	✔	
Physical Cultural Resources OP/BP 4.11		✔
Indigenous Peoples OP/BP 4.10		✔
Involuntary Resettlement OP/BP 4.12		✔
Safety of Dams OP/BP 4.37		✔
Projects on International Waterways OP/BP 7.50		✔
Projects in Disputed Areas OP/BP 7.60		✔

Legal Covenants

Sections and Description

By no later than February 28, 2018, the Palestine Liberation Organization, through the Palestinian Authority, shall cause the PIA to engage, and hereafter maintain, throughout the period of Project implementation, an Independent Verification Agent under terms of reference approved by the World Bank.

Conditions

Type	Description
Disbursement	No withdrawal shall be made in respect to each DIB Payment under Category 1 of the Grant Agreement, unless an Independent Verification Agent confirms, in writing: (i) Training Outputs and Job Outcomes that have been achieved; and (ii) the amount of DIB Payments due, based on the value assigned to the Training

	Outputs and Job Outcomes in the Rate Card and agreed upon in the Performance and Funding Agreement. Such confirmation will be subject to World Bank's prior approval.
Type Disbursement	Description No withdrawal shall be made in respect to ICF Financing under Category 2 of the Grant Agreement, unless: (i) ICF Agreement for a particular ICF Financing of ICF Sub-Project has been entered into between the ICF Enterprise and the PIA, on behalf of the Palestine Liberation Organization, containing terms and conditions satisfactory to the World Bank; (ii) private investors in the ICF Enterprise have committed an aggregate of at least 80% in equity or debt of the total investment size; (iii) all investors in the ICF Enterprise have entered into an agreement to ensure the full funding of the ICF Sub-Project from its start up to completion stages, under the terms and conditions acceptable to the World Bank; and (iv) ICF Enterprise has put in place disbursement monitoring mechanisms, acceptable to the World Bank.

PROJECT TEAM

Bank Staff

Name	Role	Specialization	Unit
Peter J. Mousley	Team Leader(ADM Responsible)	Lead Specialist	MNC02
Abdalwahab Khatib	Team Leader	Financial Instruments	GFM05
Stefanie Lynn Ridenour	Team Leader	Impact Bonds	GFM05
Lina Fathallah Rajoub	Procurement Specialist(ADM Responsible)	Procurement	GGO05
Riham Hussein	Financial Management Specialist	Financial Management	GGO23
Amarilis Beltran Netwall	Safeguards Specialist	MIGA Safeguards	MIGEI
Andrianirina Michel Eric Ranjeva	Team Member	Finance Officer	WFALN
Bjorn Philipp	Team Member	Program Leader - Sustainable Development	MNC04
Camilo Mondragon-Velez	Team Member	IFC- Let's Work Initiative	CDIIM
David A. Robalino	Team Member	Jobs Methodology	GPSJB
Federica Ricaldi	Team Member	Jobs Methodology	GPSJB

Helen Z. Shahriari	Safeguards Specialist	Social Safeguards	GSU05
Jade Elena Garza Ndiaye	Team Member	Entrepreneurship	GTC01
Jaikishin Narender Asnani	Team Member	IFC	CNGS9
Julie Aurelie Carles	Team Member	IFC	CNGS9
Justin Pooley	Safeguards Specialist	IFC Safeguards	CESIG
Layali H. Abdeen	Team Member	MIGA	MIGOP
Lori Ann Conzo	Safeguards Specialist	IFC Safeguards	CESI2
Lucero Del Carmen Burga Bravo De Rueda	Team Member	Economist	GFM05
Maria Ariano	Team Member	Operations	GTC05
Mark Eugene Ahern	Team Member	Program Leader	MNC04
Mona Abou El Yazeed Fahm Darweesh	Team Member	IFC	CNGS9
Natalia Robalino	Counsel	Country Lawyer	LEGIA
Samira Ahmed Hillis	Team Member	Program Leader - Human Development	MNC04
Sara Badiei	Team Member	Energy	GEE05
Steve W. Wan Yan Lun	Team Member	Operations	GFM05
Suha Rabah	Team Member	Program Assistant	MNCGZ
Tracy Hart	Safeguards Specialist	Environmental Safeguards	GEN05
Victor Mulas	Team Member	Entrepreneurship	GTCIE
Youssef Issa Habesch	Team Member	IFC	CMEWJ
Zainiddin Karaev	Team Member	State and Peacebuilding Fund	GCFMR

Extended Team

Name	Title	Organization	Location
James Crittle	Industrial Zones Consultant		World

WEST BANK AND GAZA
FINANCE FOR JOBS II

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I. STRATEGIC CONTEXT

A. Country Context

1. The Palestinian economy is fragile and conflict-affected, and has long suffered from restrictions and political instability that continue to constrain private sector activity. In recent years, the economy witnessed a sharp deceleration in economic growth from over 8 percent during 2007–2011 to 3 percent during 2012–2015. This was followed by an estimated 4.1 percent in 2016 based on latest available data. Recent growth was mainly driven by a rebound in Gaza, where growth reached 7.7 percent in 2016 driven by an upsurge in construction activity. The West Bank economy is estimated to have expanded by 3.0 percent mainly due to an increase in household consumption financed by bank loans.[1]

2. In the short term, Gaza may return to economic growth given the current pace of reconstruction, but with a lingering internal divide between Gaza and the West Bank, the Gaza economy is not expected to rebound to pre-2014 war levels until 2018. Also, the growth outcome in the West Bank may be worse than expected if tensions continue to escalate. This will result in elevated security risks that may eventually weaken consumer and investor confidence, and hence, negatively impact economic activity and employment growth.

3. The weak growth trajectory in large part reflects mounting fiscal difficulties. Successful reform efforts, through a general containment in the wage bill and efforts to curtail net lending, and previous strong economic growth helped bring the relative size of the Palestinian overall fiscal deficit down from 24.6 percent of gross domestic product (GDP) in 2008 to 13 percent in 2010. Despite these efforts, the deficit to GDP ratio has remained stuck in the 10–13 percent range since 2010 – on the back of a large wage bill and weak revenue performance. The Palestinian Authority (PA) also experienced substantial revenue losses under the current revenue sharing arrangements outlined by the Paris Protocol and other subsequent arrangements, some of which are outdated or not implemented as envisaged. The PA's situation remains fragile, and the World Bank projects a historically high financing gap of close to US$ 0.8 billion in 2017. This decline in foreign aid (from 32 percent of GDP in 2008 to close to 6 percent in 2016) has also significantly contributed to weak economic growth.

4. These macroeconomic and fiscal trends imply a stagnation in real per capita income and an increase in unemployment. A significant shortage of employment opportunities exists in the West Bank and Gaza. Unemployment is now approaching 30 percent on average. Over the last two decades, the number of Palestinians in the labor force increased by 0.8 million, while only 0.5 million additional jobs were created. As a result, the number of unemployed increased by 0.3 million, resulting in an extremely high unemployment rate. Furthermore, much of the private sector job growth over the past several years was concentrated in retail and non-tradable service subsectors, which do not generate sufficient quality employment opportunities. The Palestinian Central Bureau of Statistics labor force data indicate that unemployment among Palestinian youth was very high in 2015, particularly in Gaza where more than half of those aged 15–29 were out of work. In addition to low labor demand, women continue to face challenges to join the labor force. The female participation rate in the labor market is very low (around 19 percent) and women's unemployment rate is high, at almost 40 percent.

[1] World Bank Economic Monitoring Report to the Ad Hoc Liaison Committee May 4, 2017

B. Sectoral and Institutional Context

5. The private investment and private sector activity needed to fuel job growth and labor demand remain at suboptimal levels, concentrated mainly in low-productivity subsectors with weak employment growth. Private investment averaged only 15 percent of GDP over the past seven years, while foreign direct investment averaged only 1 percent of GDP. Most formal enterprises are at the micro or small end of the firm size spectrum (only one percent of establishments had 20 or more workers in 2013), and a significant level of informality involves up to an estimated 10 percent of the workforce.[2]

6. Recent World Bank Group (WBG) analysis of the investment climate in the West Bank and Gaza provides evidence of the very difficult environment facing the private sector:

- No progress was made in the West Bank and Gaza's overall position within the global *Doing Business* rankings in recent years, with 2017 data reporting a decline from 138 out of 189 economies to 140. The time, cost, and procedures for establishing a business in the West Bank and Gaza are prohibitive to the startup and entrepreneurial activity needed to fuel private sector growth.

- The *2014 Investment Climate Assessment* (ICA) "Fragmentation and Uncertainty" lists political instability, access to electricity, informal sector practices, tax rates, and access to finance as the persistently highest obstacles to private sector investment. Recommendations include obtaining greater access to resources and markets, reducing trends of fragmentation and isolation, mitigating political risk, and enhancing the private sector role in the economy, particularly through investment in skills, technology, entrepreneurship, and innovation. Roughly one in three firms in the West Bank and Gaza report political instability as the top obstacle in the business environment, in line with the regional average. Electricity and informal sector practices are the second- and third-ranked top obstacles. Over half of all firms consider access to finance as a major/very severe obstacle to their current operations.

7. Limited private investment growth and the resultant suppressed demand for private sector labor are accompanied by constraints on the supply side. Evidence shows that even where job openings exist, graduates often lack the skills or practical experience demanded by the private sector. Young Palestinians face serious employment challenges upon graduation. Unemployment rates among graduates from both university and secondary education institutions are above 60 percent at the age of graduation (23 years old for those with university and 18 for secondary education diplomas), with a slow decrease over time. In the West Bank, after age 18, the proportion of jobless male youth increases considerably, reaching 33 percent by age 23 (with 20 percent unemployed and 14 percent inactive). In Gaza, where restrictions on movement prevent the labor force from moving to more productive sectors with higher wages, or toward employment opportunities outside of Gaza, unemployment reaches 35 percent among male youth by age 26. The slow education-to-work transition in the West Bank and Gaza is symptomatic of the Palestinian labor market, characterized by the low absorptive capacity of the private sector and limited access to job opportunities abroad. Even for graduates who choose entrepreneurship over the traditional job market, lack of appropriate skills sets in startups' teams appears to be one factor inhibiting them from obtaining financing (see Annex 1). In addition to demand-side constraints, a number of challenges in the supply of skills hinder the smooth transition of youth into productive employment.

[2] *http://www.pcbs.gov.ps*. Data for 2014.

8. A key contributing factor to suboptimal outcomes in the Palestinian labor market is that the skills development sector remains insufficiently coordinated and inadequately linked to the private sector. The West Bank and Gaza scores low in terms of fostering a demand-driven approach, meaning that few opportunities exist for industry and other private sector actors to play an active role in the planning, oversight, and delivery of workforce training. Despite approximately US$140 million in donor funds invested in the skills development sector since 2001, significant mismatches continue to arise between the training provided by institutions in the West Bank and Gaza and what the private sector needs.

9. Private-sector-led growth is central to the socioeconomic future of the West Bank and Gaza. Analysis conducted on the skills market, together with consultations with stakeholders, reconfirms the limited potential for new employment in the absence of new private sector investment. The PA is cognizant of the need to foster more private sector participation and move away from the public-sector-oriented, supply-driven, and largely donor-financed initiatives that have predominated to date. Meanwhile, the private sector is seeking new ways to engage in tackling the national economic challenges – both in shaping and financing solutions. The current gap between the public and private sectors in the West Bank and Gaza needs to be narrowed, together with the introduction of more proactive, collaborative, output-based approaches that are led and co-financed by private sector.

C. Higher-level Objectives to which the Project Contributes

10. The F4J II is proposed as the second project in the Finance for Jobs series of projects (F4J SOP). The overarching project development objective (PDO) supported by the F4J SOP is: “To mobilize private investment financing in high potential sectors and generate job opportunities for the West Bank and Gaza.” To achieve this, the F4J SOP includes a unique combination of key elements: (i) job creation in a fragility, conflict, and violence (FCV) context, (ii) piloting of innovative financial instruments, and (iii) public-private sector linkages. As such, the F4J SOP commenced with a first project (F4J I; P151089) that supported the upstream detailed design, capacity building, and testing of one innovative financial instrument (an Entrepreneurship Ecosystem Matching Grant [EE-MG] facility), along with generating initial lessons learned[3]. F4J I also supported capacity building to prepare two other innovative instruments that will be designed and tested under F4J II – a Development Impact Bond (DIB) and an Investment Co-Financing Facility (ICF]).

11. The F4J SOP is closely aligned with the WBG *Middle East and North Africa (MENA) Regional Strategy*, which encourages the type of informed risk taking, innovation, and private sector engagement that characterizes this unique initiative. The F4J SOP is particularly aligned with the pillars on renewing the social contract and reconstruction and recovery. The F4J II contributes to renewing the social contract between government and citizens, gaining citizen trust through promotion of social and economic inclusion, creation of greater private sector-led jobs, and enhancement of the quality of public services. It will also contribute to the reconstruction and recovery in Gaza.

12. This project is well aligned with the forthcoming World Bank Group’s Assistance Strategy (AS) for the West Bank and Gaza, whose overarching objective is to create conditions that incentivize the private sector and simultaneously mitigate the risks faced while investing in a fragile and uncertain environment. To help achieve transformative outcomes in job creation for a wide cross-section of the Palestinian population, the forthcoming AS will emphasize a paradigm shift in the World Bank Group’s engagement to prioritize private sector development. Creating a supportive environment for investment in the productive sectors of the economy is critical. Increased investment can enhance the capacity of the economy, inspire entrepreneurial effort, and generate the jobs that are

[3] The F4J project is referred to throughout this PAD as “F4J I” to more clearly define references to the first project vis-à-vis F4J II, though the legal name of the first project is “F4J.”

needed – especially for the large number of unemployed youth. Moreover, expanding businesses and job opportunities will boost confidence and secure job-generating investments which can in turn facilitate the path towards a final resolution. Equally, for the anticipated job growth from private sector activity to reach the entire population, and especially the bottom 40 percent, will require a level playing field, transparent licensing, smart and stable regulation, and a strong civil society. The F4J SOP responds directly to this AS by collaborating with IFC, MIGA, and other development partners to mobilize private sector participation through innovative financing and risk mitigation mechanisms. WBG collaboration with IFC and MIGA in the F4J SOP is key and demonstrates a common engagement in supporting economic development in an FCV country, one of the key pillars of the WBG's strategic priorities.

13. With its focus on mobilizing private investment, the F4J SOP also puts into practice the "cascade approach" being implemented across the WBG to ensure that World Bank financing leverages or incentivizes private sector financing. The focus on crowding in private investment and working in close upstream cooperation with IFC and MIGA represents also the early operationalization of the "cascade approach" now being mainstreamed in the MENA region for all investment decisions. In its strategic development agenda for 2030, the "Forward Look," the WBG also puts strong emphasis on mobilizing private investment to bring sustainable and scalable solutions to development challenges.[4]

14. The F4J SOP is consistent with the WBG's *Integrated Framework for Jobs in Fragile and Conflict Situations*. The key proposition is that private sector jobs with positive social or economic externalities (i.e., "good jobs for development") are undersupplied in FCV settings without public support. The framework provides guidance – incorporated into the F4J SOP design – for structuring interventions in FCV settings to promote private sector-generated employment.

15. Finally, the F4J SOP contributes to the Finance and Markets (F&M) Global Practice (GP) strategy, which through promoting efficient and inclusive financial systems contributes to the WBG's strategic goals of ending extreme poverty and boosting shared prosperity in a sustainable manner. F4J II fits within the "Financial Inclusion and Access" theme of the F&M GP strategy, in line with F4J II's objective of generating growth and jobs by allocating scarce resources efficiently and allowing dynamic firms to start, grow, innovate, and create jobs.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

To test the effectiveness of selected financial interventions in incentivizing private sector investment and job creation.

B. Project Beneficiaries

16. Private sector job creation in the West Bank and Gaza is the fundamental objective of the F4J SOP. Three innovative financing instruments will be tested to reach that objective and will generate the first-ever lessons on fostering job creation through such instruments in an FCV setting. To that end, F4J II will target the following beneficiaries:

[4] Forward Look: A Vision for the World Bank Group in 2030. September 20, 2016.

- The **Palestinian labor force,** as the primary direct beneficiaries of job creation**,** particularly youth aged 18–29, women, and the working age population in more vulnerable FCV settings (e.g., Gaza).

- **Private sector enterprises and service providers** that receive financing, better-trained and qualified employees, and/or technical assistance (TA) and capacity building services – including training providers (Component 1) and intermediary organizations and businesses (Components 2 and 3).

- The **public sector,** which will benefit from enhanced dialogue and credibility with the private sector, strengthened capabilities to utilize innovative financing instruments, and increased capacity and service delivery within the skills development market.

C. PDO-Level Results Indicators

17. Building on the expected results of F4J I, the key PDO-level results that will be measured in F4J II are: private capital mobilized and jobs created.

18. **Private capital mobilized**[5]: As in F4J I, this core sector indicator will be measured under F4J II as a key PDO-level indicator. It will measure the total private investment incentivized as a result of: (i) private capital catalyzed for a Development Impact Bond (Component 1), and (ii) private investment co-financed by the private sector under an Investment Co-Financing Facility (Component 2).

19. To define and measure this indicator, F4J II draws on a recent Independent Evaluation Group approach paper that characterizes three approaches used by multilateral development banks (MDB) to “incentivize” financial flows from the private sector:

- **Catalyzation** – private capital flows resulting from the development activities of MDBs (e.g., reforms to improve the business environment that lower levels of risk and costs to the private sector);

- **Co-financing** – concessional or private capital flows provided for a specific project financed by the MDB’s own financial commitment (e.g., a blending of donor funds, multilateral loans, and the project sponsor’s investment to address a global priority); and

- **Mobilization** – private capital flows to specific projects incentivized through an MDB’s off-balance sheet activities (e.g., a multilateral institution raising private capital on commercial terms for an Infrastructure Fund).

20. **Jobs created**: It is expected that jobs will be created as a result of each of the tested financing instruments. The F4J SOP aspires to not just create jobs but to create: (i) “better quality jobs,” defined as jobs created in formal sectors, with higher productivity levels and greater sustainability (for example, a job that provides over six months’ equivalent of full-time employment); and (ii) inclusive jobs, defined as jobs for those categories of the labor force that

[5] According to the *Core Sectors and Indicators Definition* report by the Results Platforms, World Bank (2014), “mobilized private capital” is private capital that has been fully committed. For projects where private capital comes from debt, equity, or both, private capital is mobilized when it is fully committed and all conditions precedent to the first drawdown are fulfilled or waived. Therefore, loan funds are available for drawdown. For projects where private capital comes from equity only, private capital is mobilized when the contract under which private equity will be provided is signed and becomes effective.

are traditionally more distant from the market or more vulnerable, such as women, youth, or people living in particularly remote or disadvantaged areas. Sustainable, high-quality jobs and inclusive jobs will be measured in the Results Framework, with the targets calculated based on the number of jobs anticipated to be created as a result of a US$5 million DIB and US$3.5 million in ICF contributions.

III. PROJECT DESCRIPTION

A. Project Components

21. As the second project in the F4J SOP, the proposed F4J II will provide the funding required to test two innovative financing instruments that seek to incentivize private investment and create jobs: a DIB and an ICF. Capacity building for both was conducted under F4J I. Each instrument targets different aspects of either the demand side (firm startup and growth stages) or the supply side (skills, market intermediation) of the jobs challenge in the West Bank and Gaza.

- A **Development Impact Bond (component 1)** 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 (component 2)** will provide risk-sharing, grant-financed support for commercially sound job-creating private sector investments that may otherwise not be considered viable due to market and institutional failures and other FCV risk considerations.

22. The proposed F4J II will also support (at no cost) continued operation of an innovative financing instrument developed and launched under F4J I:

- An **Entrepreneurship Ecosystem Matching Grant (component 3)** instrument will support early-stage finance and startups, particularly to build the pipeline of early-stage investment funds.

23. The F4J SOP was designed to allow for flexibility and scaling up or down of funds as needed between the three instruments based on performance. Learning and knowledge generation from these instruments is a key element of the F4J SOP. As outlined in Figure 1 and Table 1 below, the instruments are sequenced between F4J I and F4J II, with F4J I testing the EE-MG and building capacity for the DIB and ICF instruments, and F4J II finalizing the design of and testing the latter two (a more detailed table can be found in Annex 1).

Figure 1: Timeline for the F4J SOP

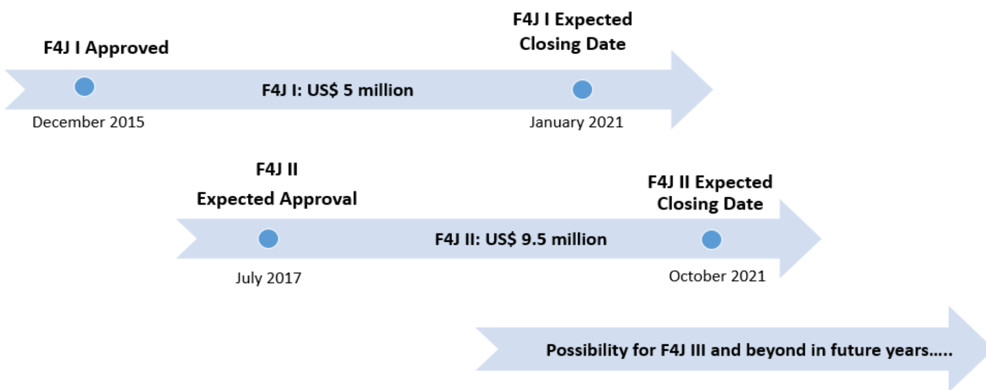


Table 1: Overview of F4J I and F4J II: Key Components and Sequencing

Finance for Jobs I (2016–2021)	Finance for Jobs II (2017–2021)
• Testing of Entrepreneurship Ecosystem Matching Grant (EE-MG) (US$1.5 million) • Capacity building to prepare for testing the Development Impact Bond (DIB) and Investment Co-Financing Facility (ICF) instruments in F4J II (including feasibility work) • Capacity building for the Ministry of Finance and Planning • Foundational activities such as financing and recruitment of Project Implementation Agency (PIA) and hiring of key staff	• Testing of DIB (US$5 million) • Testing of ICF (US$3.5 million) • Possibility to scale the instruments based on performance, demand and funding, including possible re-allocations to the EE-MG with F4J II funds.
Cross cutting: Learning and knowledge generation about job creation in FCV settings	

Component 1: Development Impact Bond for Skills Development for Employment (US$5 million total, of which US$3.5 million from Trust Fund for Gaza and West Bank and US$1.5 million from State and Peacebuilding Fund)

24. **Rationale:** Impact bonds have recently emerged as an innovative results-based financing model that leverages private sector investment and focuses on achieving results.[6] In a DIB, private investors – rather than donors – pay upfront for interventions to achieve agreed results and work with delivery organizations to ensure that results are achieved. Outcomes Funders (typically donors in DIBs and governments in Social Impact Bonds [SIBs]) make payments to investors if the interventions succeed.

25. The DIB will focus on enhancing the skills of the Palestinian workforce in a more market-driven way to foster improved job outcomes. The DIB will target an estimated cohort of approximately 2,000 beneficiaries (depending on

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

final DIB design) aged 18–29 years (including at least 30 percent women). It will finance the training, job search, and placement services provided to beneficiaries, depending on private sector demand. Specific outputs and outcomes will include the completion of beneficiaries' training, their placement into an apprenticeship/internship/work-based training scheme, and their ultimate employment.

26. **Implementation approach:** F4J I financed and put in place the DIB governance and management structure, determined the feasibility of the DIB, raised initial investor commitments, and provided capacity building/TA to prepare the market for deployment of the DIB. Component 1 of F4J II will support issuing a DIB and provide financing for DIB payments to eligible investors in the DIB instrument based upon agreed output and outcome results having been achieved. This component will pilot a US$5 million DIB; an anchor contribution of US$3.5 million will be financed by the Trust Fund for Gaza and West Bank (TFGWB), while US$1.5 million will be financed by the State and Peacebuilding Fund (SPF). The SPF will also separately finance US$0.5 million for a Bank-executed third-party impact evaluation exercise of the DIB (see paragraph 40 and table 2).

27. As the Outcomes Funders, the WBG, the SPF, and the PA will not finance upfront the cost of the training intervention and purchased services, as in a traditional donor-financed model. Payment for the intervention and specific training services will initially be borne by private investors and paid to service providers. Investors' private contributions will be mobilized and maintained in a Special Purpose Vehicle (SPV) for the DIB. Financing will flow through the DIB SPV – first from private investors to service providers to finance program delivery, and then repaid to investors once output/outcomes are verified. Further details on the DIB model and proposed financing structure can be found in Annex 4.

28. **Key issues to be addressed:** Investor appetite is critical to the success of the DIB. In addition to a number of individual consultations with key private sector representatives, the WBG and the PA began a series of investor consultations in Ramallah in July 2016, and held a roundtable event in February 2017 in London that drew a number of potential investors. Several indicated their interest and willingness to invest in the DIB, particularly citing that more innovative private sector-led approaches are needed to help tackle the unique employment challenges of the West Bank and Gaza. The Palestinian private sector's interest and desire to better address the employment and skills development challenge in the West Bank and Gaza was strongly indicated during ongoing consultations. The private sector also indicated increasing interest in the DIB model, especially given its strong orientation toward private sector management and involvement

29. The mix of investors expected to be attracted by the DIB likely includes "impact first" investors such as foundations, international financial institutions, high net worth individuals, and potentially some quasi-commercial investors. The output and outcome payments will be designed to help balance investor risk/reward, and reduce the DIB's cost of capital, as early output payments can be recycled. The expected rate of return for investors will be finalized as the DIB is structured. Expected internal rates of return (IRRs) for DIBs designed to date range between 5–15 percent, with higher IRRs achievable only upon over-performance.

30. Given that F4J II will initiate not just the first-ever DIB by the World Bank, but also the first in an FCV setting, monitoring and evaluation (M&E) of the DIB implementation is a principal objective of the F4J SOP. Additional financing from the SPF will enable a robust impact evaluation to draw lessons learned for replication both in the West Bank and Gaza and in other FCV settings. The evaluation will be performed by a third-party institution and will be designed jointly by the World Bank and the Project Implementation Agency (PIA) in consultation with the

Ministry of Finance and Planning (MOFP). Key partners also include the World Bank's Development Impact Evaluation Initiative (DIME) and Brookings Institution.

31. The DIB will be continuously monitored via a robust performance management framework that will allow for ongoing course corrections. A thorough stocktaking will also be a priority at the Mid-Term Review (MTR) (or potentially earlier) to determine whether the pilot is on track as well as the options to be pursued, if this is not the case.

Component 2: Investment Co-Financing Facility (US$3.5 million from TFGWB)

32. **Rationale:** Current assessments of the West Bank and Gaza indicate that a number of sound private investments in sectors such as tourism, information and communication technology (ICT), agribusiness, renewable energy, and light manufacturing are unable to move forward due to exceptional FCV risks and related market failures, including limited financing options and lack of long-term debt financing. These are nevertheless fundamentally commercially sound investments that are likely to generate significant social and economic benefits through job creation. Hence, a significant need exists for long-term investments directed toward inclusive growth to address broader social challenges. Given the social externalities of this prospective job creation, a public good case can be made for financing support to enable these private sector investments to proceed. To do so, this component will finance a risk-sharing ICF instrument to leverage potentially larger job-creating private sector investment activity.

33. **Implementation approach**: This component entails providing a risk-sharing grant in support of commercially sound, job-creating private sector investments (ICF subprojects) through an Investment Co-Financing Facility instrument. Under this component, private sector investors will be encouraged to submit investment proposals for ICF support. The PIA will conduct a due diligence exercise of each planned investment, entailing: (i) determination of the commercial soundness of the proposal; (ii) compliance with safeguards; and (iii) computation of a Social Rate of Return (SRR) that reflects the proposal's job-creation effects. The SRR methodology developed for this purpose by the Bank will be used to determine the social return of a given investment arising from the anticipated level of jobs created (direct, indirect, and possibly induced). More details on this methodology can be found in the "Economic Analysis" section. All ICF subprojects proposed for support will need to obtain World Bank No Objection before the allocation can proceed. This also includes compliance with the ICF disbursement conditions. If viable investment proposals exceed available funding, priority will be given to those investments that offer the highest social benefit as measured by projected job outcomes.

34. F4J II includes a "first mover" ICF investment, co-financed with the IFC, that has been scoped and will be ready to receive investment in the fourth quarter of 2017, contingent upon signing the IFC loan agreement and meeting Bank and IFC requirements for disbursement. This will provide an early demonstration of the ICF's effectiveness and will provide a strong signal to the market. The initial preparation work undertaken for the ICF in F4J I identified the Gaza Industrial Estate (GIE) Photovoltaic (PV) Solar Panel Subproject for its potential job outcomes. This subproject will entail installation of solar panels on the rooftops of the factories and warehouse facilities in the GIE. An approximate US$11 million investment will allow the GIE to offer stable and cheaper electricity to new tenants and to meet existing tenants' electricity needs for two- to three-shift operations, both of which will lead to job growth. Financing for a 7-megawatt (MW) rooftop PV solar energy system will comprise an IFC A loan of up to US$4 million and a blended finance/concessional senior loan of up to US$4 million, and sponsor equity of approximately

US$2.5 million. World Bank co-financing of approximately US$1.5-2 million will complement the investment cost, together with potential MIGA insurance. A detailed summary of this first mover ICF project is in Annex 1.

35. All necessary actions were taken by the WBG in consultation with the PA to address the potential perceived conflicts of interest (COI) entailed in this co-financing initiative. Going forward, should further ICF project co-financing with the IFC/MIGA under the ICF component occur, standard COI procedures will continue to be followed.

36. **Key issues to be addressed**: In addition to the GIE Solar Panel Subproject, this component will finance an additional one to two ICF subprojects that will need to be identified through pipeline development. Market assessment work done as part of F4J II preparation took place in all major cities of the West Bank, including Ramallah, Bethlehem, Hebron, Jericho, Jenin, and Nablus. This exercise identified a potential pipeline of up to US$35–40 million of private sector investments with strong job-creation possibilities for which an ICF co-financing request would be possible. This includes prospective ICF contributions to job-creation expansion in other selected industrial parks in the West Bank, in other commercial developments in West Bank cities, and in agro-processing investments, particularly in the date subsector.

Component 3: Entrepreneurship Ecosystem Matching Grants (Zero budget component)

37. **Rationale:** Recent findings from the World Bank's entrepreneurship ecosystem survey in the West Bank and Gaza demonstrate the importance of startups in creating jobs for the Palestinian economy.[7] Among the startups surveyed that provided jobs data, an estimated 1,247 jobs were created, with a median of three jobs per startup. While equity financing available to young entrepreneurs and startups has increased in the West Bank and Gaza, financiers report a lack of competitive investment opportunities. There are a dearth of viable ideas as well as entrepreneurs entering the ecosystem and surviving to later stages of the firm lifecycle. This has led to lost opportunities, as venture capital and private equity funds have limited viable investments from which to choose and funds are not being spent. To address this situation, the Entrepreneurship Ecosystem Matching Grant (EE-MG) was launched in F4J I to improve the number and quality of investment-ready entrepreneurship initiatives by enhancing enterprises' capacity to absorb funding from investment vehicles already in place.

38. **Implementation approach:** This component entails provision of matching grants to beneficiaries to build their business development capacity and their business advisory capacity. F4J I launched financing (US$1.5 million) to test the EE-MG. Under F4J II, this is a zero budget component that will allow the F4J SOP to allocate F4J II funds from the other components to the EE-MG based on its performance under F4J I and demand from potential recipients, performance in deployment of funds across other financial instruments supported under F4J II and possible additional external funds raised.

Component 4: Project Management (US$1 million from TFGWB)

39. This component entails providing financing to PIA in support of project management, coordination, monitoring and evaluation, including fiduciary control and oversight, environmental and social safeguards assessments, and preparation of project reports, and to cover project's operating costs. F4J I is financing the majority of the overall F4J SOP implementation arrangements through the PIA. F4J II will also include an allocation of project management funds that may be flexibly deployed depending on demand for and performance of the three instruments.

[7] Additional initial results from the entrepreneurship ecosystem survey can be found in Box A2.1 of Annex 2.

B. Project Cost and Financing

40. F4J II will use the investment project financing instrument financed by the grant from the TFGWB totaling US$8 million, plus an additional US$1.5 million grant from the SPF specifically for the DIB component, for a total project cost of US$9.5 million. Separately the SPF will also finance US$0.5 million for a Bank-executed impact evaluation of the DIB. A breakdown of F4J II's costs is provided in Table 3. A thorough review and – as required – a re-profiling of component budget allocations will be undertaken no later than the F4J II MTR or earlier, taking into account lessons learned in the first years of F4J II implementation.

Table 3: Breakdown of F4J II Component Costs

Project Components	Project Cost	TFGWB	SPF Financing
Component 1: DIB	5	3.5	1.5
Component 2: ICF	3.5	3.5	
Component 3: EE-MG	0	0	
Component 4: Project Management	1	1	
Total Costs	10	8	1.5
Total Project Costs	9.5	8	1.5
Total Financing Required	9.5		

Note: All figures displayed as US$ million.

41. Subject to performance of the three instruments and outstanding demand, additional partner contributions would be sought for F4J II via establishment of a Multi-Donor Trust Fund (MDTF). The purpose of the MDTF would be to support – where justified – the scaling up and/or replication of the three instruments. In particular, diagnostic work completed to date indicates that prospective market demand exists for additional ICF contributions, as well as signals from potential sponsors, including IFC and others to add to the pipeline. The F4J SOP was sequenced so that additional donor financing would not be sought until F4J II. In the case of the ICF, the TFGWB envelope is sufficient to cover the GIE PV Solar Panel Subproject along with a second and possibly third investment, while simultaneously building the pipeline for subsequent investments that could be financed by the MDTF.

C. Lessons Learned and Reflected in the Project Design

42. F4J II's design reflects lessons learned from other WBG-financed projects, as well as other donor-financed projects, and international best practices. Key lessons taken into account include the following:

Better integration of the demand and supply sides of the job market:

- F4J II draws on the global lessons learned regarding job creation from the World Bank's Education to Work Transition Program (E2WTP) in the West Bank and Gaza and the Yemen Enterprise Revitalization and Employment Pilot Project, the IFC's Education for Employment initiative, and other donor-financed projects largely focused on the supply side. F4J II builds on these experiences with an approach to delivering services that relies on private sector financing and implementation expertise in a manner that enhances market responsiveness and incentivizes performance. A key F4J II innovation to these prior projects is its specific targeting of the demand side of the job market through introduction of different financial instruments designed to foster private investment in firm startup and expansion.

International experience with innovative financing models:

- While the instruments under consideration have a limited track record, the current evidence is favorable. In the case of the DIB, a 2015 Brookings Institution report found that impact bonds lead to a shift in focus to outcomes and increased transparency and accountability for achieving results.[8] The report noted that by bringing the private sector mentality into the provision of services, impact bonds drive more effective and efficient performance management and stimulate collaboration among stakeholders. It was also noted that impact bonds support the development of strong M&E systems. The PIA includes a specialized team from a leading impact bond intermediary (Social Finance UK) and is partnering with Brookings Institution on the DIB impact evaluation design to incorporate lessons learned to date from employment- and skills-focused impact bonds. The ICF rationale is very much aligned with that underpinning the Private Sector Window established under IDA 18 which recognizes the need to provide de-risking instruments so as to increase private sector investment in FCV settings.

Lessons learned from previous matching grant programs:

- While the EE-MG differs from more standard matching grant instruments insofar as its grants are channeled through investment vehicles rather than individual entrepreneurs, it will seek to take into account general lessons learned from previous World Bank interventions that suggest that the degree of success of "matching grant" facilities is mostly a function of design rather than country circumstances. In the MENA region, the export promotion fund in Tunisia ("FAMEX"), supported under two projects (First and Second Export Development Projects), and the Facility for New Market Development in the West Bank and Gaza are among the successful matching grant funds supported by the Bank. Main lessons learned include the need to: (i) reinforce the market-creation benefits of matching grant schemes by providing assistance to business associations and service providers as well as firms; (ii) form a strong and credible management team; and (iii) be very practical in approach and able to flexibly adapt.

[8] Brookings Institution, "The Potential and Limitations of Impact Bonds: Lessons from the first five years of experience worldwide." July 2015.

43. F4J II will require continued close technical and operational partnerships with the IFC and MIGA teams. Achieving an effective level of collaboration across GPs and Cross Cutting Solution Areas (CCSA) will be critical to the F4J SOP's success—not just from a technical perspective, but also to present a sufficiently strong "MDTF-value" proposition to mobilize the additional donor funding needed to complement WBG resources.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

44. The overall F4J SOP implementation arrangements entail three levels. At the apex is the MOFP as the formal PA Project Counterpart (PC). Overall management of F4J II is the responsibility of the PIA, which was competitively recruited from the private sector under F4J I. 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. The PIA includes a specialized management team for the DIB, the DIB Advisor (D-Adv). Once the DIB is launched, it is expected that a DIB Manager (DM) will be hired to manage the DIB implementation on behalf of investors. In addition to the specialized team hired for the DIB, separate contracts for managing the EE-MG and ICF instruments are in place. The main functions of each of these parties can be found in Annex 2.

45. In support of the overall implementation arrangements, a Public-Private Advisory Body (PPAB) was established, comprising key PA counterparts from the MOFP, Ministry of National Economy, Ministry of Labor, the Palestinian Central Bureau of Statistics, and the Palestine Capital Markets Authority, together with representatives from the financial and private sector, including the Association of Banks, the Businesswomen's Forum, the Palestinian Businessman Association, and the Federation of Palestinian Chambers of Commerce, Industry and Agriculture. One member from the donor community will also have an observer status.

46. The PPAB will play a unique and important advisory role in the F4J SOP's overall governance. The PPAB will not hold any decision-making authority over F4J II, including selection of recipients of financing made available under any of the instruments. However, the PPAB will monitor and provide feedback on progress. In particular, the PPAB will act as a sounding board and critical feedback loop between the PC, the PIA, and other stakeholders as the DIB and ICF are designed and piloted. As a result of its role and position within the F4J SOP governance structure, and of discussions generated as a result of its meetings, the PPAB will capture much of the knowledge generated and lessons learned from F4J II, a critical aspect of the F4J SOP.

47. Specific arrangements will be required for the DIB design and implementation. Annex 2 details the different preparation and implementation steps and key milestones over F4J II. Also included in Annex 2 is an illustrative schema for the overall design and operation of a DIB, based on international experience.

48. One comprehensive Operations Manual (OM) is in place for the F4J SOP, covering both projects and the three innovative financing instruments supported (to date) by the series of projects. An OM for F4J I has been revised by the MOFP/PIA to include F4J II. It is expected that the F4J SOP OM will be revised as appropriate throughout implementation to accommodate ongoing lessons learned from the testing of the financing instruments.

B. Results Monitoring and Evaluation

49. Given the important intrinsic learning that will take place across all activities financed by F4J II, M&E of results is both a means and an end in itself. The World Bank team – in consultation with the MOFP, the PIA, the Bank's internal DIME team, and external partners (Brookings Institution for the DIB) – is responsible for the design, structure, and oversight of the M&E framework, starting with the results framework of both projects in the F4J SOP. This is particularly important for the DIB, given that this will be the first DIB piloted by the WBG and will provide a precedent for any subsequent DIB.

50. Evaluation methodologies and implementation plans for the entire F4J SOP will be finalized by end-2017. This will ensure that robust baselines are established and verified by the PIA. The unique character of the three instruments to be tested will require that different monitoring and evaluation approaches be deployed in each case. Key considerations for each instrument are as follows:

- **DIB**: As indicated above (paragraph 30), the SPF has provided additional financing (US$0.5 million) to fund a robust impact evaluation of the DIB. This will likely involve a heterogeneous group of beneficiaries with varying job aspirations and educational backgrounds who are spread across different geographies. Recruitment of beneficiaries is expected to be an ongoing process. These conditions make the job of matching an intervention group to a counterfactual complex. A range of potential evaluation methodologies will need to be considered before arriving at a final option, each with its own set of pros and cons. A working group comprising the PIA, the World Bank's DIME, and other World Bank M&E specialists, supported by staff from the Brookings Institution is in place to review these options as summarized in Annex 2.

- **ICF**: This instrument's evaluation methodology will follow a case study approach, benchmarked against investment-to-job sector outcomes as established by a computable general equilibrium (CGE) model developed for the F4J SOP[9] and the SSR analysis undertaken as part of the due diligence for the allocation of ICF funding.

- **EE-MG**: In the case of matching grants, a randomized control experiment is not likely to be feasible as this methodology requires that a statistically robust sample of non-beneficiaries, taken from the same eligible pool of firms that were given matching grants, be established as a control. In other words, a sufficient oversubscription of eligible beneficiaries is required. As this is not feasible since the F4J SOP targets a relatively limited number of investment funds to receive an EE-MG, a case study approach will be adopted to determine the direct outcomes, drawing on an ecosystem model.[10]

[9] 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 benchmark for assessing potential job outcomes in ICF proposals.

[10] This ecosystem modelling methodology was applied by the Trade and Competitiveness GP - with financing from DFID - to the innovation and entrepreneurship sectors in the West Bank and Gaza to provide a baseline record of the current ecosystem against which to compare outcomes from the EE-MG.

51. The operational aspects of the M&E framework are presented in the OM. Relevant tasks will include: (i) development of the M&E methodology and implementation plan and approach to be taken for compilation of baseline data requirements, as determined by the methodology adopted; (ii) preparation of quarterly, half yearly, and annual project monitoring reports, containing summary data on overall performance against targets; and (iii) annual and semiannual M&E reviews and lessons learned workshops to enhance F4J SOP outcomes. Once the specific DIB design is finalized, the OM will also outline the methodology and implementation plan for the DIB evaluation.

C. Sustainability

52. A key characteristic of F4J II is its focus on sustainable outcomes. F4J II aims at creating sustainable formal jobs through each component by addressing both demand- and supply-side factors. The F4J SOP tests the potential for a more effective means to bring private and public sector resources together to achieve job outcomes than in traditional input-driven interventions. The key prerequisites for sustainability entail: (i) capacity building of both public and private sector actors involved in investment and job creation; (ii) deployment of specialized financing instruments that crowd in private investment; and (iii) new methods of public-private coordination and partnership. By focusing on building skills and attracting private investment, F4J II seeks to create a positive dynamic in the labor market that persists after the F4J SOP closes. The following considerations need to be borne in mind to ensure this happens:

- **Capacity building:** A key strategic goal of the F4J SOP is to strengthen both the public and private sectors to contribute to new ways of public-private collaboration that ensure sustainability of the instruments. Key elements of this capacity building entail the following:
  - **For the private sector:** (i) financing outreach for prospective applicants and technical due diligence on proposals submitted for financing, through the ICF; (ii) supporting potential providers in developing market-targeted training courses through trainings and workshops; (iii) financing activities to enhance enterprises' capacity to be ready to receive investments and absorb funding through the EE-MG; and (iv) organizing workshops and communication activities to raise awareness of the DIB among educational institutions and employers.
  - **For the public sector**: Workshops and trainings for public officials to transfer knowledge on the design and implementation of the evaluated financial instruments to the relevant government institutions.
  - **For private-public sector dialogue**: The proposed PPAB will serve as a think tank on new ways for the public and private sectors to tackle the jobs challenge; it is expected to disseminate much of the knowledge generated and lessons learned from F4J II to public and private stakeholders.

- **Balancing public and private incentives**: The sustainability of the instruments to be piloted under the F4J SOP will rest largely on the strength of private sector responsiveness and uptake. Designing these instruments and ensuring that the right balance is achieved in terms of market discipline and social return will be crucial to their longer-term effectiveness.

- **Public-private cooperation and partnership:** As evidenced in the Dialogue for Palestinian Jobs Creation (DPJC) exercise, the partnership between the public and private sectors in addressing the jobs gap is essential but currently limited and under stress. Longer-term sustainability and improved outcomes require new approaches to bringing the demand and supply sides of the job market together in this FCV setting. This requires partnerships that use available public and private sector funding in ways that better leverage the different players' comparative advantages. This necessitates putting the private sector in more of a leadership role in directing both sources of financing toward desired job outcomes. Part of this need to create new ways of partnership is reflected in Component 2, as the ICF encourages private sector investment with the objective of job creation.

D. Role of Partners

53. WBG collaboration between IBRD, IFC, and MIGA in the F4J SOP initiative was critical to its preparation and design, and will continue during implementation of F4J II, especially in the co-financing of the GIE PV Solar Panel Subproject. Additional details on this partnership can be found in Annex 2.

54. As referenced above in the section on Project Cost and Financing, additional partner contributions would be sought via establishment of an MDTF to complement the TFGWB and SPF contributions. Job creation is increasingly a central theme of donors and development agencies supporting the Palestinian economy, many of whom look to the Bank to provide analytically grounded and evidence-based guidance. Several donors expressed interest in supporting the F4J SOP, and over the past 18 months, a few donors co-financed the Bank's analytical and consultative activities, contributing to the proposed design of the F4J SOP.

55. For example, the Norwegian Government provided support by funding the above-referenced DPJC, which: (i) reviewed the status of job creation efforts within the territories, and (ii) discussed specific issues related to key constraints and opportunities with a view toward identifying some "out of the box" solutions. A number of potential areas for new initiatives arose. The findings suggested that any new initiatives to address the jobs challenge in the West Bank and Gaza would require: (i) new financial enhancement mechanisms to address key market failures that inhibit private sector investment; and (ii) improved public-private dialogue and implementing arrangements to foster a more coordinated and flexible approach to address market fragmentation and uncertainty issues, as well as social spillover effects, particularly related to job creation.

56. The Norwegian Government also funded the Bank's Innovative Finance and Investment TA as a follow-on engagement to the issues highlighted during the DPJC. Under this activity, the Bank team assessed the feasibility of using innovative financing instruments that allow for enhanced public-private cooperation and implementation flexibility in the West Bank and Gaza.

57. DFID provided additional resources to assess the potential pipeline of private sector investment projects for consideration for "enhancement funding"; conduct outreach to prospective social impact investors to mobilize market interest in investing in the DIB; assess the entrepreneurship ecosystem to facilitate effective use of funding under the EE-MG; and develop the M&E and impact assessment framework for the F4J SOP.

58. Finally, two innovative activities on jobs measurement and methodologies that support the F4J SOP were ongoing during F4J II preparation. The "Let's Work" financing window of the *Umbrella Trust Fund for Jobs* financed: (i) development of the SRR methodology to measure the social externalities of jobs and to screen ICF investments, and (ii) a jobs-focused CGE model (see footnote 10). This multi-donor trust fund is supported by a consortium of donors that currently includes the Governments of Austria, Norway, Germany, and Switzerland (SECO—through existing financing in an IFC MDTF), the UK's DFID, the Austrian Development Agency, and the Swedish SIDA.

V. KEY RISKS

A. Overall Risk Rating and Explanation of Key Risks

59. The overall risk rating for F4J II is high. This is based on the following assessment of risks rated high and substantial: Political and Governance, Macroeconomic, Sector Strategies and Policies, Technical Design, Institutional Capacity, Fiduciary, and Stakeholders.

60. **Political and Governance**: This risk is assessed as high. The peace process remains vulnerable and the domestic political situation remains unsettled. The PA is increasingly demonstrating its unwillingness to fund the *de facto* authority in Gaza through 30 percent pay cuts of its employees in Gaza and by stopping payments for electricity in Gaza. The announcement that municipal elections would be held throughout the Palestinian territories in October proved to be a disappointment, with the poll postponed following a court ruling, and then held only in the West Bank, in May. Several parties boycotted the vote and a low turnout and the success of independents over party-aligned candidates are indicative of public disillusionment with the political process and leadership. Political instability and the long lasting Israeli restrictions on movement, access and trade are substantial impediments to project implementation in Palestinian territories, particularly in Gaza. To mitigate the risk, political and security developments are monitored routinely for the Bank Group to remain alert to any situation that may require adjustments to its operation. The Bank Group also partners with local communities, municipalities, NGOs, utilities and educational institutions which could provide additional modes of implementation to ensure program and project continuity.

61. **Macroeconomic**: The macroeconomic risk is high. Given the F4J SOP's emphasis on private sector buy-in, the potential for macro-instability is a major contributor to F4J II risks. Political instability, including the 2014 war in Gaza and the outbreak of clashes in the West Bank, have remarkably increased the level of uncertainty and negatively impacted business confidence. Also, the ongoing system of restrictions on movement, access and trade imposed by the Government of Israel (GOI) presents a key binding constraint to private sector investment and economic growth. On the fiscal side, risks relate to the PA's persistently high fiscal deficit financed through donor grants that have been unpredictable and on a declining path since 2008. Also, the possibility of suspensions of revenue transfers for taxes collected by the GOI on behalf of the PA and the latter's lack of control over public finances and economic management in Gaza significantly add to the risks. A possible further reduction in the level of donor assistance poses significant risks to the sustainability of the macroeconomic and fiscal framework. While the PA has charted a course toward lesser dependence on external aid and is undertaking the relevant reforms, it will take time for the PA to achieve fiscal sustainability and that will only be possible if there is a political settlement that allows for strong private-sector-led growth. Thus, a further reduction in the overall level of donor assistance or lack of its predictability is a significant source of risk to the PA's finances and the Palestinian economy as a whole.

62. **Sector Strategies and Policies:** This risk is assessed as substantial and reflects risks associated with a multitude of business and policy constraints that can intensify and ease in unpredictable ways, as indicated in the ICA, Doing Business report, and other economic and sector work. The threat of further political instability also remains, which would significantly limit both the PA's and the private sector's capacity to function. There is the associated risk that the private sector will not be sufficiently incentivized to respond in the ways anticipated. In other words, commercial or political risks could continue to hamper private sector appetite for engagement. The project will mitigate this risk by crowding in private sector funding and expertise, and instituting the PPAB.

63. **Technical Design of the Project or Program:** The technical design risk is substantial due to the innovative nature of F4J II, as the project's objective to stimulate demonstration and first mover effects; therefore, risk is accepted as integral to F4J II's rationale. The risk associated with private sector implementation arrangements – including inefficiency or a form of rent-capture – is less than the risks of inefficiency and leakage for any alternative public sector implementation option, where effective incentive systems for performance cannot be so well-established. The financing instruments piloted under the SOP are also largely untested especially in FCV settings. To mitigate this risk, F4J I recruited specialized experts with applied experience with the different financial instruments and undertook capacity building and due diligence (including diagnostics on each instrument) to ensure that a solid design, management, and implementation structure would be in place. While implementation risks will be mitigated through the private sector PIA, the technical design risk remains substantial due to F4J II's novel, three-part implementation arrangements, as well as its focus on testing new instruments in a high risk environment.

64. **Institutional Capacity for Implementation and Sustainability:** The risk rating is substantial. Effectively managing a SOP and new financing instruments such as the DIB requires a certain level of capacity and expertise. The PIA has been hired by the MOFP to help mitigate this risk, and thus plays a critical role in the day-to-day implementation, M&E, and fiduciary oversight. However, the PA needs to have the capacity to manage such externally provided expertise and follow through on recommendations to ensure sustainability. F4J I also includes a capacity-building component for the PA to help mitigate against sustainability risks, though this will need to be managed and monitored closely to ensure longer term sustainability.

65. **Fiduciary:** The risk rating is substantial. This is based on a financial management (FM) risk rating of substantial and a procurement risk rating of Moderate. Risks are mitigated through an experienced private sector entity being in place– the PIA – which has good capacity, and close supervision by the Bank team, as well as regular audits. Mitigating measures are currently in place since the PIA was established under the F4J I project. The PIA will continue to be responsible for all FM, disbursement, and procurement aspects of the F4J II. Details are included below in the Appraisal Summary sections on financial management and procurement, as well as Annex 2.

66. **Stakeholders:** The risk rating is substantial primarily due to delays in meeting the F4J I effectiveness conditions (recruitment of the PIA) as a result of protracted inter-ministerial discussion and coordination. The PPAB, which includes multiple public and private organizations, will serve to mitigate this risk going forward by providing a dedicated body and forum for relevant stakeholders to convene.

VI. APPRAISAL SUMMARY

A. Economic and Financial (if applicable) Analysis

67. The total investment cost for this project is US$9.5 million. Initial assessments of the unit costs associated with the socioeconomic outcome targets (private capital mobilized and jobs created) for the DIB, ICF, and EE-MG are as follows:

- **DIB**: Unit costs are currently estimated at approximately US$4,000–5,000 on average for beneficiaries of the DIB, depending on the final DIB design. (Beneficiaries include individuals who have completed training as well as those actually employed after training.)
- **ICF**: Cost per job created is expected not to exceed US$5,000, and this limit will be applied as one of the eligibility criteria for potential ICF financing. The estimate of the cost per job created under the GIE PV Solar Panel Subproject is estimated between US$1,750 and US$2,825 per beneficiary (based on the World Bank's ICF contribution).
- **EE-MG**: The cost per entrepreneur supported – based on a matching grant ratio of 50 percent – will

amount to US$5,327. This estimate is well within the range of unit costs cited in other WBG evaluations–particularly given the characteristics of the cohort set targeted.

68. In terms of benchmarks, current estimates of the cost per job created in the West Bank and Gaza through grant-financed projects vary. One donor-financed project estimates the cost per job at approximately US$3,800. The Welfare Association's Youth Employment Service Program puts the cost of a job at US$2,100 (excluding overhead recovery) and the Quality Improvement Fund program at US$2,500. Tamayyaz, a Palestinian leadership program that aims to equip youth with job-relevant life skills, costs US$4,000 per graduate on average. Similarly, the Jordan New Work Opportunities for Women program spent around US$4,000 per employment outcome. Although it is recognized that these figures were not all robustly generated and are not directly comparable, they do provide some benchmarks. By way of international comparison, the UK Department of Works and Pensions – through its "Sustained Employment and Work First" program – has a current average cost of GBP 1,500 to facilitate job referrals for program participants and of GBP 4,600 per job placement, with the maximum per beneficiary capped at GBP 14,000 depending on his/her deemed "distance from entering the job market." In the UK's Communities and Local Government Fair Chance Fund (where the target population is even farther from the job market), the maximum payment per individual is GBP 17,000.

69. To ensure an appropriate pricing and repayment structure within the DIB, a "Rate Card" approach in which a fixed payment price for defined outputs and outcomes is defined upfront. This approach has been used in other impact bond models in the United Kingdom focused on education and employment outcomes. Payments would be based not only on ultimate employment outcomes but also on training outputs and intermediate employment outcomes achieved throughout the duration of F4J II to ensure that risk is balanced appropriately. The suggested mix of DIB output and outcome payment triggers helps to create the right risk-return profile in West Bank and Gaza's high-risk FCV environment, such that the DIB is an investible proposition. For SIBs launched in the United Kingdom around education and unemployment reduction (as part of the UK's Department of Work and Pensions Innovation Fund), payment is also based on a mix of outputs and outcomes, reflecting the social value attached to successful delivery of outputs such as improved school attendance, which has longer-term social value beyond the horizon of the program. The proposed DIB will incentivize outputs such as level of women's engagement in training programs. Finding the right mix of output and outcome payments will be an iterative process, dependent on the Outcome Funder's and investors' risk profiles.

70. The DIB's assumed attrition rate is based on global experience with ongoing SIBs addressing high unemployment among harder-to-reach populations and on data from other workforce development programming in developing countries. Using the Mental Health and Employment Partnership SIB as a benchmark, the West Bank and Gaza DIB anticipates an attrition rate between 15–20 percent between beneficiaries' recruitment and actual participation in program activities. Attaining minimum targets for female participation will require significant recruitment and retention efforts, as a number of forces either deter women from entering the workforce or push them out; thus the assumed attrition rates are higher for women than the average rates assumed elsewhere.

71. From an economic perspective, using cost per job as sole indicator of the DIB's efficiency neglects an important aspect of the overall social return of F4J II. In the presence of high unemployment and underemployment, or when jobs contribute to peace, social stability, or the accumulation of human capital, the SRR on investments in certain sectors/projects can be higher than the private rate of return. That is, even in the absence of market failures, the private sector might not invest enough and/or might not generate the "right" portfolio of investments. In this case, public support to strategic private investments can promote investments in specific regions or subsectors. Public support can be especially key in fragile settings to support employment, inclusion, and development of

individuals, firms, and communities in the economy, development of new technologies and sectors, and broad economic change and social development.

72. From a private perspective, the rate of return on investments might be low in FCV settings for different reasons, such as obsolete technology, lack of infrastructure, inadequate skills, high political risk, and lack of adequate market institutions. Yet private investments can also have a social return and contribute to well-being for individuals, society, and the economy. If the social value of private investment is factored in, the public sector might be justified in supporting some specific investments. F4J II's unique contribution is that it will assess and measure the value of the social returns specifically arising from job creation and look to develop financial enhancements to support private investment. In particular, in addition to the increased (net) labor incomes that underpin the standard approach to estimating the economic benefit streams from additional jobs, there may be externalities from jobs that benefit society at large but are not captured in the measurement of (present or future) private income streams. The *2013 Jobs World Development Report* refers to such jobs as "good jobs for development." Indeed, a job that goes to a particular class of worker (such as a poor person, a woman, a young person, or a person from a discriminated group) might lead to additional benefits for society – the rationale is that an extra dollar will provide greater benefit to a person who is poor than to someone who is well off (diminishing marginal utility of additional consumption).

73. The GIE PV Solar Panel Subproject under the ICF (Component 2), for example, is expected to create around 800 jobs (mostly indirect, as they will result from expansion of production in the GIE), of which 4 percent will be for women and 36 percent for youth[11]. Including the influx of possible new GIE tenants attracted by the stable and affordable electricity, the potential for job creation is even higher: the five companies that applied for space in the GIE expect to create around 200 new jobs.

74. Though it is difficult to accurately assess the social impact of private investments, externalities from job creation can be defined, for example, by existing government policy/priority or by assessing social preferences depending on the type of job. Higher values can be assigned to jobs for youth, women, or other more vulnerable, "farther from the market" beneficiaries. Focus groups or survey analytics can potentially be used to determine specific weights for different beneficiary groups (by gender, age, and skill level). Overall, though, the SRR methodology will be used to develop an eligible pipeline for investment enhancements and as an integral aspect of the F4J SOP M&E framework.

B. Technical

75. Private sector investment in the West Bank and Gaza confronts extreme political and market risk. The fragmentation of factor and product markets can raise market-clearing prices to prohibitive levels. The limited financial intermediation and fiscal constraints impacting the Palestinian economy can further close off traditional avenues to address financing gaps on what would otherwise be commercially sound investments. For instance, key infrastructure –in other economies appropriately supplied as a public good by government – may be absent in the West Bank and Gaza. If the private sector is to pursue market opportunities that will generate jobs, innovative public-sector-supported approaches to mitigate these failures will be essential in many cases. The components of the F4J SOP are designed to address, among others, three specific types of constraints to private investment:

[11] The share of jobs created for women in Gaza is expected to be low since: (i) most jobs are factory jobs which are typically not held by women in Gaza, who traditionally hold more administrative/office roles, and (ii) barriers to employment for women in Gaza are typically higher than in the West Bank.

- **Weakened market incentives** are due to the prevalence of traditional input-based approaches that can, at times, crowd out private-sector-driven approaches. F4J II aims to address this through testing the DIB (Component 1).

- **Political risk** arises from the wider context of the West Bank and Gaza, and impacts private sector appetite for investment. F4J II will seek to enable job-creating private sector investments to move forward through deployment of the risk-sharing ICF instrument, and explore collaboration with IFC and MIGA. In certain cases, this could entail the provision of MIGA political risk insurance (Component 2).

- **Excessive market risk** arises from the heightened asymmetric information challenges associated with first mover and startup investments in companies operating in the West Bank and Gaza. This can be addressed through the EE-MG (Component 3).

76. The overall value-added provided by the WBG derives not only from its technical capacity to assist the PA to address the above challenges. It also entails the WBG's unique ability to mobilize wider financing from the private sector and other donors, and the PA's trust in partnering with the WBG to pilot a highly nontraditional program, characterized by high risk but also high potential.

C. Financial Management

77. The overall F4J II risk from FM perspective is substantial.

78. The PIA will handle all FM and disbursement aspects of F4J II and report to the PC at the MOFP, as well as the Bank periodically. The FM arrangements for F4J II will ensure that funds are used for the purposes intended. The PC at the MOFP has experience with the Bank 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 (one for the TFGWB and the other for the SPF). Withdrawal Applications (WA) will be endorsed by the MOFP and funds will be directly deposited into the DAs managed by the PIA. For Component 1, independent verification reports on the achievement of agreed outputs and outcomes will be required to trigger withdrawal.

79. The FM arrangements at the PIA are considered satisfactory. The PC at the MOFP will keep accounting records and ensure that F4J II activities are recorded in the PA accounting system (Bisan). This will be done throughout the life of F4J II. This can be done on a batch basis with day-to-day accounting undertaken by the PIA. The system, currently used by other projects at the MOFP, will have a separate cost center that will be used for F4J II accounts.

80. The PIA will produce interim financial reports (IFRs) quarterly and submit these to the PC, who will endorse them and submit them to the Bank. The unaudited IFRs should be submitted to the Bank within 45 days after the end of each quarter. The PIA will also be responsible for providing annual audited project financial statements, which should also be submitted to the PC, 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.

81. To ensure sound management of F4J II resources, the PIA has an Implementation Agreement (IA) with the MOFP, supported by an OM for F4J I. The OM has details covering all administrative, financial and accounting, budgetary, and human resources procedures relevant to F4J II. The PIA updated the OM to correspond with F4J II so that the OM covers both projects in the F4J SOP rather than having two separate OMs.

D. Procurement

82. The overall procurement risk rating for F4J II is moderate**.**

83. Procurement for F4J II shall be carried out in accordance with the World Bank's "Procurement Regulations for Borrowers under Investment Project Financing", dated July 1, 2016, the Grant Agreement (GA), and the Procurement Plan for the project dated June 1, 2017, approved by the Bank. The "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants," dated October 15, 2006 and revised in January 2011, shall apply to F4J II.

84. The PIA will continue to hold overall responsibility for procurement following the same arrangements in place for F4J I and will act as the Bank's counterpart for all procurement aspects of F4J II. In particular, the PIA will carry out procurement for the Project Management component (Component 4) and other relevant central activities and will oversee procurement of service providers by the DIB under Component 1 and by grant recipients under Components 2 and 3. For all components, 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 and documented in the OM. F4J II will finance procurement of goods, minor works, nonconsulting services, and consultants' services for the capacity building components. Given their demand-driven nature, procurement packages for Components 1, 2, and 3 may not be defined upfront. For Component 4, and other centrally-procured packages, the PIA prepared a procurement plan for the first 18 months of project implementation, which was approved by the Bank on June 1, 2017.

E. Social (including Safeguards)

85. Activities supported by F4J II are expected to generate socioeconomic gains and have an overall positive effect. Initial assessments identified the following sectors as offering the greatest job-creation prospects: (i) tourism, (ii) ICT, (iii) agribusiness, (iv) renewable energy, and (v) light manufacturing. The final design work to be done for the DIB during F4J II implementation will manage and mitigate possible negative social impacts associated with job creation. Examples include: (i) differential access to job training, internship, and placement programs; (ii) transfer of resources and jobs to one sector, with losses in another; and (iii) overly strict requirements for hiring, which may dampen private sector appetite to establish new positions. Women and youth remain those at greatest risk of social exclusion in the labor force. Lastly, the local economy has unique challenges associated with labor force mobility. Gender and social consultants to be hired as part of the PIA will be tasked with identifying potential negative impacts and introducing practices intended to minimize these.

86. Overall, adverse social impacts are anticipated to be low. Any land requirements (temporary or permanent) for investments to be financed under F4J II will be met through lands that are under PA control or owned by private companies. Therefore, any subprojects that may trigger the World Bank Policy OP4.12 (Involuntary Resettlement) by involving relocation of households, temporary or permanent land take, and impacts on livelihoods, including those that may occur through restriction of access to resources, will be excluded. In cases where land may be purchased through a "willing seller–willing buyer" approach or in cases of voluntary land donation, the PIA will need to document for power of choice, including documentation that the owner was made aware of his or her rights of refusal to sell. In addition, F4J II should demonstrate that owner(s) have access to a project-level grievance redress mechanism, that the land is free of any competing claims, and that there are no renters or squatters on the land. This documentation must be provided for subprojects to be considered eligible for screening. In other words, if the appropriate documentation is not provided, the subproject will be considered ineligible. To screen for these exclusions, F4J II will rely on guidelines in the existing OM, which includes a rigorous subproject screening process to

be done by the PIA. The main categories covered under the screening include but are not restricted to the following enquiries:

- Subproject investments require the acquisition of private land (temporarily or permanently) for development?
- Restriction of access to natural resources (for example, pasture, fishing locations, and forests) occurs for households and communities as a result of subproject-level investments?
- Subproject-level investments result in involuntary relocation of individuals, families, or businesses?
- Subproject investments result in the temporary or permanent loss of economic activities, like crops, fruit trees, businesses, or household infrastructure (such as granaries, outside toilets, and kitchens)?
- The subproject results in adverse impacts on individuals/entities encroaching on state lands?

87. With respect to social safeguards, the GIE PV Solar Panel Subproject under Component 2 (ICF) entails installation of solar panels on the rooftops of factories and warehouse facilities in the GIE, which are fenced. As a result, the GIE PV Solar Panel Subproject is entirely within the footprint of existing facilities.

88. A safeguards capacity assessment of the MOFP was carried out. The Environmental and Social Management Framework (ESMF), disclosed on March 16, 2017, outlines a capacity building plan for implementation during F4J I to assure that the involved PA ministries and private sector entities are familiar with the provisions of the Bank's social safeguards policies. Moreover, the PIA will be staffed with a safeguards specialist – an Environmental and Social Officer (ESO) – familiar with Bank's safeguards policies, including OP4.12, who will ensure that this screening mechanism is fully functional, implemented, and regularly reported back to the Bank. Recruitment for this position is already in process under F4J I. A project-level Grievance Redress Mechanism (GRM) will be established in the first year of F4J II, with the following features: an assigned contact to manage the system; accessibility to communities; documentation of complaints using a log; and timely written responses to complaints.

F. Environment (including Safeguards)

89. As a follow-on project, F4J II has the same environmental safeguards aspects as F4J I. The ESMF and OM for F4J II were modified to include provisions for how to handle subprojects co-financed by IFC and/or MIGA. For any co-financed project, the World Bank's subproject EMP and the IFC's Environmental and Social Action Plan will be aligned so that joint implementation support can be better coordinated for both the client and the Bank/IFC. The EMP for the GIE PV Solar Panel Subproject was cleared and disclosed on March 16, 2017, and will be updated and re-disclosed prior to the start of this subproject's implementation.

90. F4J II is classified as Environmental Category "B" in accordance with the World Bank's Operational Policy (OP) 4.01 due to potential adverse environmental and social impacts that are site-specific and reversible; these are easily remediable by applying appropriate mitigation measures. Given current information, these potential adverse environmental impacts may include the following: construction-related air, noise, and water quality issues; pedestrian and vehicular traffic and other construction-related disruptions; and workers' occupational health and safety. Potential long-term impacts may include additional agriculture-related effluents within fields, hothouses, and/or warehouses; construction industry management of construction phase impacts; and e-waste and other lifecycle disposal management associated with alternative energy source development. Key environmental issues specific to the GIE PV Solar Panel Subproject include labor and working conditions for workers, occupational health and safety, water use given the arid environment, and the safe structural design and introduction of solar modules on rooftops.

91. The OP4.01 (Environmental Assessment) and OP4.09 (Pest Management) are applicable to the F4J SOP. Agricultural processing subprojects may include the purchase and use of chemical formulations to involve OP4.09. A Pest Management Plan was thus included as part of the F4J II ESMF. The ESMF, prepared in compliance with World Bank safeguards policies for a Category B Project and with environmental and social laws of the PA**,** includes the following:

- Identification and description in detail of the nature and extent of environmental and social impacts;
- An environmental and social screening checklist for potential subprojects, which includes a "negative list" of subproject characteristics to be precluded from funding;
- Proposed mitigation measures for each category of subprojects to be considered as part of the evaluation of potential subprojects under F4J II;
- An assessment of environmental and social safeguards expertise in the MOFP and other relevant implementation parties, as well as a capacity building plan for F4J II, including training, budget, and timetable; and
- Results of stakeholder consultations with concerned potential stakeholders, including the potentially involved NGOs, private sector organizations, and concerned government agencies and private sector organizations.

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

93. **Mitigation measures and monitoring arrangements:** During F4J SOP implementation, potential individual subprojects will be reviewed on the basis of screening criteria, including economic/financial, social, and environmental considerations. Individual template EMPs for each of the five priority subproject categories noted above will guide preparation of subproject EMPs during F4J II as needed, with the first subproject EMP finalized for the GIE PV Solar Panel Subproject. This subproject includes a site-specific management and monitoring plan for construction, operational, and decommissioning phases, within which specific plans exist for human resources policy, environmental health and safety, water use management, construction management, waste management, and emergency response.

94. **Public consultations and information disclosure:** Three stakeholder consultations were held for F4J I in the summer of 2015; one stakeholder consultation was held during F4J II preparation in November 2016 for the GIE PV Solar Panel Subproject. As subsequent subprojects are identified, beneficiaries will be identified and consulted as appropriate. Each subproject EMP will include a site-specific consultation process, to take place during F4J II implementation. The ESMF also establishes a GRM for the project. The ESMF for F4J II, as well as the GIE PV Solar Panel Subproject EMP, were disclosed on the World Bank's external website and on the MOFP website on March 16, 2017. An Arabic language summary of the ESMF was disclosed on the same date.

95. **Capacity for safeguards implementation:** During F4J SOP implementation, the PIA will include an ESO; this position is in the process of recruitment. The ESO terms of reference are included in the ESMF. The West Bank and Gaza has sufficient depth of experience to recruit locally. The F4J II ESMF and OM include a capacity building plan to train in subject areas, including but not limited to: (i) pre-project screening, monitoring, and reporting; (ii) Palestinian Environmental Quality Authority and World Bank environmental and social safeguards standards; (iii) stakeholder consultations, grievance redress mechanisms, and involuntary resettlement policies; and (iv) design and preparation of subproject EMPs. Training will be for MOFP staff, PIA staff, and interested parties from the private sector, and will

occur once the ESO is on board as part of F4J I. This will ensure that capacity is built prior to subproject implementation under F4J II.

96. **Climate and disaster risk screening:** Climate and disaster risk screening was completed for the GIE PV Solar Panel Subproject to be carried out under Component 2 (ICF). In general, this subproject contributes to mitigating climate change risks since it will enable the GIE to generate some of its electricity supply from a renewable source as opposed to carbon (including diesel) sources. Additionally, with climate change expected to exacerbate Gaza's water scarcity, water management is a key area to monitor, so this subproject's EMP includes a Water Management Plan. As cleaning solar panels during their operation will consume the most water, the Engineering Procurement, and Construction Contractor will evaluate all cleaning mechanisms and technologies available, as well as the optimal frequency with which to use them, to select a cleaning option with acceptable efficiency and minimal residual risk.

G. Other Safeguard Policies (if applicable)

97. No other safeguards policies are triggered under F4J II.

H. World Bank Grievance Redress

98. Communities and individuals who believe that they are adversely affected by a World Bank-supported project may submit complaints to existing project-level GRMs 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 Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank noncompliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank management has been given an opportunity to respond. For information on how to submit complaints to the Bank's corporate GRS, please visit *http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service*. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

VII. RESULTS FRAMEWORK AND MONITORING

Results Framework
COUNTRY : West Bank and Gaza
Finance for Jobs II

Project Development Objectives

To test the effectiveness of selected financial interventions in incentivizing private sector investment and job creation.

Project Development Objective Indicators

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: Private Capital Mobilized		Amount(USD)	0.00	4000000.00	Semiannual	DIB Manager/PIA	DIB Manager/PIA/MOFP
Description: The core indicator track the amount of direct financing (in the form of equity and/or debt) mobilized by private entities, using private funding, to finance investments within an IBRD/IDA operation or investments (PE, GE, RE, SF, and GU) directly linked to that operation.							
Name: Number of jobs created		Number	0.00	1300.00	Quarterly	DIB Manager/PIA	DIB Manager/PIA/MOFP
Description: The number of jobs created as a result of the two financing instruments tested (DIB and ICF). Target values were calculated using specific assumptions for a $5 million DIB and $3.5 million ICF contribution.							

Intermediate Results Indicators

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: Beneficiaries of job-focused interventions	✔	Number	0.00	2500.00	Semiannual	PIA	PIA
Beneficiaries of job-focused interventions - Youth		Number	0.00	1700.00	Semiannual	PIA	PIA
Beneficiaries of job-focused interventions - Female	✔	Number	0.00	450.00	Semiannual	PIA	PIA
Description:							
Name: Number of DIB benefciaries that start DIB program and complete a career assessment		Number	0.00	2100.00	Quarterly	DIB Manager	DIB Manager
Number of DIB benefciaries that start DIB program and complete a career assessment -- Women		Number	0.00	600.00	Quarterly	DIB Manager	PIA/DIB Manager
Description: Number of beneficiaries recruited into the DIB program and formally start the program through a career assessment.							

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: Number of DIB beneficiaries that complete training programs		Number	0.00	1400.00	Quarterly	DIB Manager	PIA/DIB Manager
Number of DIB beneficiaries that complete training programs -- Women		Number	0.00	350.00	Quarterly	DIB Manager	PIA/DIB Manager
Description: Number of beneficiaries that have completed training programs (e.g. technical skills, soft skills, language, etc) through the DIB program.							
Name: Number of DIB beneficiaries accepted into internships or apprenticeship programs		Number	0.00	730.00	Quarterly	DIB Manager	PIA/DIB Manager
Number of DIB beneficiaries accepted into internships or apprenticeship programs -- Women		Number	0.00	150.00	Quarterly	DIB Manager	PIA/DIB Manager
Description: Number of beneficiaries accepted into internships, apprenticeship or another work-based training programs.							
Name: Firms benefiting from private sector initiatives	✔	Number	0.00	40.00	Semiannual	PIA	PIA
Description:							

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: Beneficiaries that feel project investments reflected their needs (percentage)		Percentage	0.00	85.00	Quarterly reporting	PIA/Local partners	PIA
Description: This will measure the extent to which decisions about the project reflected community preferences in a consistent manner.							

Target Values

Project Development Objective Indicators

Indicator Name	Baseline	YR1	YR2	YR3	YR4	End Target
Private Capital Mobilized	0.00	2000000.00	3000000.00	4000000.00	4000000.00	4000000.00
Number of jobs created	0.00	200.00	550.00	1000.00	1300.00	1300.00

Intermediate Results Indicators

Indicator Name	Baseline	YR1	YR2	YR3	YR4	End Target
Beneficiaries of job-focused interventions	0.00	500.00	1700.00	2200.00	2500.00	2500.00
Beneficiaries of job-focused interventions - Youth	0.00	250.00	1100.00	1400.00	1700.00	1700.00
Beneficiaries of job-focused interventions - Female	0.00	80.00	360.00	430.00	450.00	450.00
Number of DIB benefciaries that start DIB program and complete a career assessment	0.00	600.00	2100.00	2100.00	2100.00	2100.00
Number of DIB benefciaries that start DIB program and complete a career assessment -- Women	0.00	200.00	600.00	600.00	600.00	600.00
Number of DIB beneficiaries that complete training programs	0.00	200.00	1200.00	1400.00	1400.00	1400.00

Indicator Name	Baseline	YR1	YR2	YR3	YR4	End Target
Number of DIB beneficiaries that complete training programs -- Women	0.00	50.00	300.00	350.00	350.00	350.00
Number of DIB beneficiaries accepted into internships or apprenticeship programs	0.00	80.00	850.00	730.00	730.00	730.00
Number of DIB beneficiaries accepted into internships or apprenticeship programs -- Women	0.00	20.00	120.00	150.00	150.00	150.00
Firms benefiting from private sector initiatives	0.00	10.00	20.00	30.00	40.00	40.00
Beneficiaries that feel project investments reflected their needs (percentage)	0.00	75.00	80.00	85.00	85.00	85.00

ANNEX 1: DETAILED PROJECT DESCRIPTION

COUNTRY: West Bank and Gaza
Finance for Jobs II

1. F4J II is proposed as the second project within the F4J SOP, a unique program whose key elements are job creation in an FCV context, piloting of innovative financial instruments, and public-private sector linkages. The series commenced with a first project (F4J I) that undertook the upstream detailed design and capacity building for three innovative financial instruments in the West Bank and Gaza: a Development Impact Bond (DIB), an Investment Co-Financing Facility (ICF), and an Entrepreneurship Ecosystem Matching Grant (EE-MG). F4J I also tested the EE-MG. Building on the foundational work of F4J I, F4J II will finalize the design of and test the DIB and ICF, will support continued operation of the EE-MG (at no cost), will potentially scale up funding for the three instruments, and will provide ongoing project management support.

2. All three financing instruments seek to address the constraints that have a significant impact on private sector investment and generation of jobs in the West Bank and Gaza, both from the demand and supply sides of the jobs challenge in this FCV setting. F4J II is designed to allow for flexibility and scaling up or down of funds as needed between the three instruments based on their performance.

3. The overarching PDO supported by the overall F4J SOP is to mobilize private investment financing in high potential sectors and generate job opportunities or the West Bank and Gaza. The PDO of F4J II is to test the effectiveness of selected financial interventions in incentivizing private sector investment and job creation.

4. These three innovative instruments target different market entry points for augmenting job outcomes as follows.

Table A1.1: Overview of F4J I and F4J II: Key Activities and Phasing

	Market Failures and Challenges Targeted	F4J I (2016–2021)	F4J II (2017–2021)
Overall F4J SOP	- Need for new private sector-led approaches to job creation - Need to tackle job creation from both demand and supply sides - Mitigation of FCV risks	- Testing of EE-MG instrument - Capacity building and market preparation for DIB and ICF instruments - Capturing of lessons learned and knowledge - Capacity building for MOFP	- Testing of DIB and ICF instruments - Mobilization of additional resources through MDTF
Component 1: Development Impact Bond (DIB)	- Supply-side skills mismatches for existing and future job openings - Input-driven education and workforce development interventions with weak performance incentives - Disconnect with private sector demands and weak coordination	- Capacity building and market readiness activities for the DIB, including detailed design work - Hiring of key DIB contracts - Structuring of governance and implementation arrangements	- Testing of DIB instrument - Delivery of intervention (skills training and job placement) - Deployment of financing for output/outcome payments to private investors - Ongoing performance evaluation and adjustments as needed - Verification of outputs/outcomes

Component 2: Investment Co-Financing Facility (ICF)	- High market and political risk environment that inhibits growth stage investment - Lack of long-term financing - Inability to measure social externalities from job creation	- Building of pipeline, including feasibility studies for initial pipeline of potential investments - Screening methodology development and testing for assessing and shortlisting projects - Structuring of governance, due diligence, and implementation arrangements	- Financing of first mover ICF investment (GIE PV Solar Panel Subproject) - Financing of additional ICF investments depending on availability of funds and demand
Component 3: Entrepreneurship Ecosystem Matching Grant (EE-MG)	- Startup enterprise risks, arising including insufficient business development services (BDS) uptake due to market conditions - Limited early stage private sector financing available in market - Weak ecosystem linkages between financing and BDS	- Setup of competitive fund and eligibility criteria at PIA - Testing of US$1.5 million in matching grants	- Possible additional financing for the EE-MG depending on performance, demand, and available funding
Component 4: Project Management	- Low government capacity - Disconnect between public and private sectors	- Financing and recruitment of PIA, hiring of key staff - Procurement of DIB contracts - Gathering of key data and monitoring of results	- Ongoing F4J II implementation and performance management

Component 1: Development Impact Bond for Skills Development for Employment (US$5 million total, of which US$3.5 million from TFGWB and US$1.5 million from SPF)[12]

5. **Objective**: The proposed DIB will focus on enhancing the skills of the Palestinian workforce in a more market-driven way to foster improved job outcomes. The DIB will target an estimated cohort of approximately 2,000 youth aged 18–29 years (including at least 30 percent women). The DIB will address a number of weaknesses that often characterize traditional input-driven, grant-funded donor interventions, including:

- *Lack of tangible incentives to focus on outcomes*: The DIB will repay investors based on achievement of defined training and employment results. Because investors are only repaid based on the achievement of results (i.e. agreed outputs and outcomes), the DIB incentive structure is aligned toward results, rather than based on program expenditures and inputs.

- *Weak monitoring and measurement*: Outputs and outcomes will be clearly specified, and transparent definitions of success agreed in advance. Detailed data analysis and monitoring of performance allow investors to manage their risk and intervene or modify delivery of the interventions at an early stage, if necessary.

[12] Please see Annexes 2 and 4 for more details on the DIB.

- *Inflexible implementation arrangements*: The adaptive management structure inherent in DIBs will provide the flexibility to match training with employer needs, to adapt as skills needs emerge or change, and to coordinate effectively with new investment proposals that require new skills. The DIB model offers a clear management and governance structure, with the DIB Manager (DM) having overall responsibility for bringing actors together to deliver the intervention.

6. **Target cohort**: To ensure additionality of the services delivered, the F4J II DIB will target hard-to-reach populations, including those who would be least likely to find employment after graduating from tertiary education. Targeted participants are those unemployed (for a minimum of three months post-graduation) without promise of employment when they start the program. Depending on the demand for labor, it is expected that participants will mostly be recruited from the following pathways: (i) final year students or recent graduates of technical/vocational schools and universities; (ii) unemployed youth who have registered in designated job portals; and (iii) Local Education and Training Councils (LETs). Women will also be targeted for the program (at least 30 percent of the cohort) given their low labor force participation and demand from the private sector to ensure that a gender balance among participants is achieved.

7. **Implementation approach:** To ensure an appropriate pricing and repayment structure within the DIB model, a “Rate Card” approach was recommended by the D-Adv in which a fixed payment price for defined outputs and outcomes is defined upfront. This approach has been used in other impact bond models in the United Kingdom focused on education and employment outcomes. Output and outcome payments will be designed to help balance investor risk and reduce the DIB’s cost of capital, as early payments can be recycled (i.e., output payments on training completion, for example, can be cycled back through the DIB to again fund program delivery). The output payment triggers (intake assessments completed, training course completions, internship placements) mitigate the risk of waiting for a verified job sustainment (i.e., outcome payment).

8. For example, if a private sector company is in need of graduates with specific ICT skills, training would be designed and delivered to an eligible cohort of youth by pre-designated service providers. The service delivery and training costs would be paid upfront by private investors who would closely monitor its delivery and progress. If the cohort met the agreed outputs and outcomes (completion of training, job placement with an ICT company, for example), the World Bank would repay the private investors (contingent upon independent verification), including an appropriate and agreed-upon interest payment to incentivize the private sector. (See also Annex 4 for a detailed description of the DIB.)

9. **Expected results:** The US$5 million allocated for this component will finance the DIB output and outcome payments which is expected to generate over 2,000 program starts/assessments and 1,400 training completions, that could lead to over 700 apprenticeship placements/internship starts and approximately 200 jobs sustained. SPF has also separately provided USS$0.5 million for an impact evaluation of the DIB to determine whether it achieved its intended outcomes and whether the impact bond financing structure delivered more/better employment outcomes than funding based on inputs.

Component 2: Investment Co-Financing Facility (US$3.5 million from TFGWB)

10. This component will finance a risk-sharing ICF instrument to leverage potentially larger job-creating private sector investment activity. As mentioned in the main text of the PAD, F4J II includes a “first mover” ICF investment (GIE PV Solar Panel Subproject), co-financed with the IFC, that has been scoped and will be ready to receive investment in the fourth quarter of 2017, contingent upon signing the IFC loan agreement and meeting Bank and IFC requirements for disbursement. This will provide an early demonstration effect for the effectiveness of the instrument and provide a strong signal to the market. All ICF subprojects proposed for support will need to obtain

World Bank No Objection before the allocation can proceed. This also includes compliance with the ICF disbursement conditions.

11. **Rationale:** Demand for electricity in Gaza significantly exceeds supply. The Gaza Electricity Distribution Company – which distributes all electricity in Gaza – faces sustained energy shortages and unreliability, largely due to its inability to provide a 24-hour electricity supply, which depends on a link from Israel. Political and security issues impede agreement on this link. As a result, enterprises in the Gaza Industrial Estate (GIE) must either shut down their operations during electricity blackouts or generate their own electricity via private generators at a rate that renders any manufacturing process unsustainable. The implications for output and employment are significant. About 2,500 persons are currently employed by the existing 42 tenants operating in the GIE, but the GIE has struggled to operate at more than half capacity. As it suffered only limited damage in the 2014 war, the GIE is currently facing increased demand for tenancy due to the more extensive damage done to business establishments elsewhere. The largest stated constraint limiting the GIE's expansion is access to affordable and stable electricity.

12. To address this situation and foster the increase in industrial activity and job creation for which there is clear market demand, a private investment project to install solar panels on the rooftops of the factory and warehouse facilities in the GIE is being prepared by Palestine Real Estate Investment Company in collaboration with the IFC. An estimated investment of up to US$11 million would allow the GIE to generate enough electricity to extend to new tenants and to meet existing tenants' needs for two to three shifts of operation. This potential investment has not yet proceeded due to market failures attributable to the significant fragility constraints confronting Gaza. As a result, the IRR of the solar facility is below investors' minimum hurdle rate and the payoff period exceeds the normal time required for such an infrastructure facility in a very risky environment. Currently, available financial products in the local market do not provide the tenor needed, even when – as in this case – IFC blended finance and potential MIGA insurance are involved. As such, private investment will not occur without additional financial support. World Bank co-financing (through the ICF component of F4J II) can play a role by reducing the payback period, allowing the IRR to increase to a minimally viable rate while ensuring a feasible price for electricity for companies in the GIE.

13. **Expected results:** The potential development impact of the GIE PV Solar Panel Subproject is substantial. In the face of the market failures in the Gaza energy market, solar generation of electricity at the GIE would largely immunize GIE tenants from the consequences of the severe electricity shortage. If an electricity supply is maintained, additional jobs will be generated in the short term by: (i) allowing existing enterprises to move from single shift operations to two (and sometimes three) shifts per day; and (ii) allowing the GIE operator to extend services to more tenants. Coca-Cola, for example, is planning to move to two shifts and to expand production lines. Wadiya, a food manufacturer, and Sikik, a pipe production company, recently increased the number of production shifts per day from one to two. Other factories will likely work in double shifts in addition to the opening of new factories. Based on a survey of current tenants in August 2016, 2,458 persons are employed full-time in the GIE, plus 194 temporary employees. The current estimate of additional jobs created (not including the influx of new tenants) is around 800. The impact on job creation will be particularly important given the context of Gaza, where unemployment exceeds 40 percent.

14. **Current status and next steps:** The estimated US$11 million private investment project will comprise sponsor equity of approximately US$2.5 million, an IFC A loan of up to US$4 million, and a blended finance/concessional senior loan of up to US$4 million to finance a 7MW rooftop PV solar energy system, together with potential MIGA insurance. IFC held an investment review meeting for this subproject in March 2017. The next step will be for the private sector sponsor to submit the subproject to the PIA for consideration of an ICF contribution. The ICF due

diligence will determine the subproject's: (i) commercial soundness; (ii) compliance with safeguards; and (iii) social rate of return (SRR), measured in terms of job creation and associated externalities (further explanation of the SRR methodology is provided in the box below).

Box A1.2 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 FCV 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, and 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 which benefit society at large - hence 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) hence 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 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 the F4J SOP will target: (i) jobs for women, which are likely to have a positive impact on the accumulation of human capital of their children (because women tend to invest more than men in the education of their children and on the household wellbeing); (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 wellbeing 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 Experiments (DCEs) 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 the different types of jobs. In the survey, alternative policies/programs on jobs creation are presented, that lead to the creation of different type 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 tradeoffs among jobs outcomes. The results of the DCE will result in dollar values to be applied to the stream of benefits in the CBA allowing to calculate an SRR which captures the externalities of jobs creation.

Component 3: Entrepreneurship Ecosystem Matching Grants (Zero budget component)

15. Following F4J I, which launched financing (US$1.5 million) for an Entrepreneurship Ecosystem Matching Grant (EE-MG), F4J II includes a zero budget component for its continuation. The F4J SOP can allocate F4J II funds from the other components to the EE-MG based on its performance under F4J I and demand from potential recipients, performance in deployment of funds across other financial instruments and possible additional external funds raised.

16. The EE-MG is a specialized fund designed to improve the number and quality of investment-ready entrepreneurship initiatives by enhancing enterprises' capacity to absorb funding from investment vehicles already in place. The matching grant funds will be used to finance eligible BDS for these entrepreneurs. Eligible activities include production/design/quality development, marketing/distribution, and other business management support services. The matching grant financing will be made available on a competitive basis at a "wholesale level" to investment funds (or eligible designated recipients) whose investment strategy with a pipeline of prospective investees satisfies specific eligibility criteria related to job creation and business growth potential. Operational details on the EE-MG are included in the procedures manual developed as part of the OM.

Box A1.2: Findings from the World Bank's Entrepreneurship Ecosystem Survey in the West Bank and Gaza

Objective: The entrepreneurship ecosystem mapping is an initiative that applies data analytics to better understand the social dynamics between key actors in the Palestinian entrepreneurship ecosystem. The research objectives are to: (i) understand gaps and key success factors for startups; (ii) map social dynamics between key ecosystem actors (accelerators, incubators, small and medium-sized enterprises (SMEs), tech hubs, government entities and institutions); and (iii) collect data on the geospatial aggregation of startups and ecosystem players. The initiative targeted startups in all sectors (particularly in the technology sector) as well as ecosystem intermediaries. The analysis draws from data provided by 423 startups in the West Bank and Gaza as well as qualitative interviews with accelerators, incubators, and investment funds that participated in one-on-one discussions. The below summarizes the main findings from the forthcoming report:

- **The tech startup ecosystem in the West Bank and Gaza is a middle-stage ecosystem.** On average, 19 more startups are created than in the previous year, resulting in a 34 percent compounded growth rate in startup creation since 2009.
- **A few successful startups play a crucial role in generating jobs for the Palestinian economy.** A total of 1,247 jobs were created by startups that participated in the survey, with two outliers excluded from this number that generated 2,000 and 403 jobs. The median startup was one year old and hired three people per year.
- **In terms of skills, the average founder in the West Bank and Gaza has work experience similar to other emerging and middle-stage ecosystems, with educational attainment being particularly high among founders**. The average founder has six years of work experience with 2.4 companies and 85 percent of founders have a university degree or higher. The majority of founders have a degree in Science, Technology, Engineering and Mathematics (STEM).
- **A significant proportion of startups have benefitted from acceleration and/or incubation services, which only slightly improves the likelihood of obtaining investments.** A total of 96 startups were accelerated (receiving a medium of US$5,000 from accelerators and/or incubation.
- **Startups are more likely to get equity financing as compared to debt financing and are likely to get investments from individuals rather than organizations.** The survey recorded a total of 51 investors in the West Bank and Gaza. Around 75 percent were angel investors and the remaining were venture capital firms. They made a total of 62 investments in 47 startups and close to 60 percent of investments were identified as equity financing.
- **Initial short-term policy actions focus on strengthening ecosystem areas including community, skills, infrastructure and investment.** Strengthening coordination among ecosystem support programs, increasing absorption by the ecosystem of international talent connectivity, expanding practical education in university and through rapid skills training programs and addressing the quality of startup funding are among the key initial recommendations to support the ecosystem.

Component 4: Project Management (US$1 million from TFGWB)

17. F4J II will include project management funds that may be flexibly allocated in line with evolving requirements - based on ongoing experience gained with the delivery of the different financial instruments. This can, for instance, include the need to adapt implementation arrangements and/or realign technical capacities.

ANNEX 2: IMPLEMENTATION ARRANGEMENTS

COUNTRY: West Bank and Gaza
Finance for Jobs II

Project Institutional and Implementation Arrangements

1. The overall project implementation arrangements entail three levels. At the apex is the MOFP as the formal PA Project Counterpart (PC) to the F4J SOP. The PIA is responsible for overall management of F4J II, and was competitively recruited from the private sector under F4J I. 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 II. The PIA will include a specialized management team for the DIB (DIB

Advisor and DIB Manager). In addition to the specialized team hired for the DIB, separate contracts for managing the EE-MG and ICF instruments are in place.

2. The following summarizes the main project-related functions of each of the parties referenced above. The overall structure is shown in Figure A2.1.

- **Ministry of Finance and Planning (MOFP):**
  - Project design and associated preparation work, including safeguards requirements
  - Stakeholder consultations and ongoing coordination
  - Endorsement of WAs indicating that funds be deposited directly in the DA managed by the PIA
  - Review and approval of quarterly and annual work planning
  - Review and approval of quarterly project financial progress and outcomes reports

- **Project Implementation Agent (PIA):**
  - Project procurement
  - Financial management of project funds in coordination with the MOFP
  - Day-to-day project management, including work plan preparation
  - Management of the EE-MG
  - Technical services – specifically for the investment pipeline and capacity building
  - Negotiation of the DIB with investors together with the MOFP and the World Bank; agreement is ultimately subject to World Bank no objection
  - M&E, including progress reporting

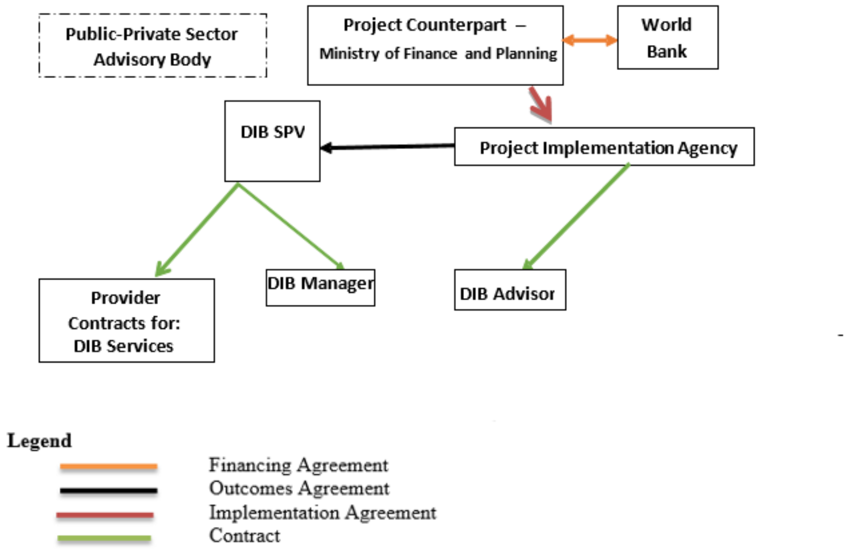
- **DIB Advisor (D-Adv)** (subcontracted by the PIA under F4J I):
  - Design and preparation of the DIB under F4J I. This includes preparation of a final DIB proposition that identifies:
    - Intervention model – proposed mix and timing and intervention approach
    - Service providers, including lead service provider, proposed service provider mix, cost per training program, and key contracting terms
    - Type and unit cost of outputs and outcomes to be delivered
    - Potential investors and possible terms; for example, investor return, drawdown, and payment schedule
  - Management of initial capacity building support to prospective DIB service providers

- **DIB Special Purpose Vehicle (SPV)**
  - Investor-owned vehicle that will pool investment capital to provide upfront finance for the DIB
  - Legal entity used to contract with investors, the Outcomes Funder, and service providers
  - Contracts a third-party organization (the “DIB Manager”) to undertake service delivery and performance management of the DIB on behalf of investors

- **DIB Manager (DM)** (contracted by the SPV Board under F4J II):
  - 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 the 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 A2.1: Overall F4J SOP Implementation Structure



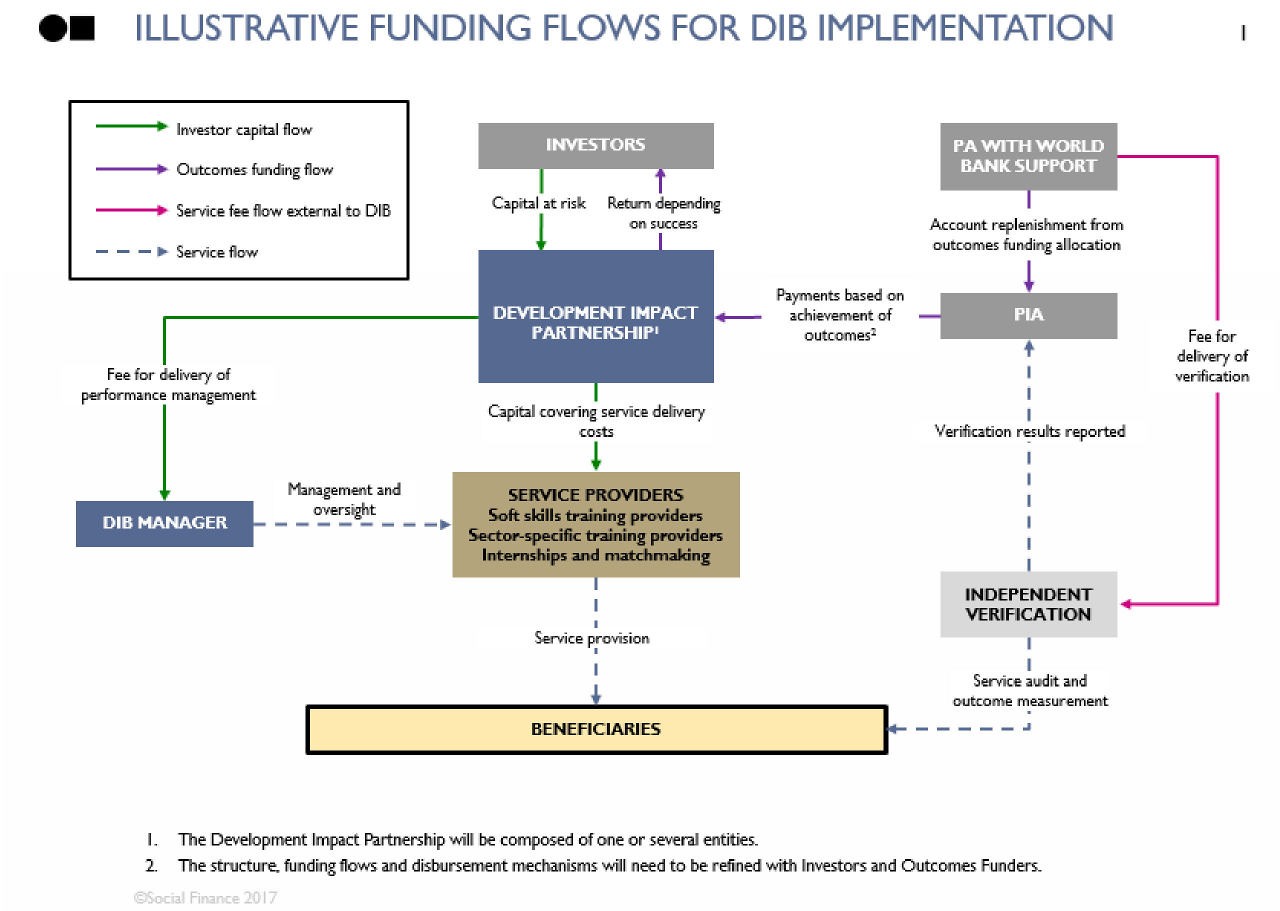
Specific Implementation Arrangements – the DIB

3. The DIB is supported by both projects under the F4J SOP: (i) market preparation and capacity building needed to design, structure, and launch the DIB was undertaken under F4J I; and (ii) deployment and piloting of the DIB instrument itself will occur under F4J II. As outlined above, the DIB will be managed by a D-Adv and a DM. The D-Adv (Social Finance UK) was recruited and subcontracted by the PIA and is responsible for the intensive market readiness and capacity building needed in advance of launching the DIB, which began in late 2016. Additional details are laid out in the OM.

4. Once the DIB investor subscription process is launched, an SPV will be established by the private sector investors in the DIB.[13] The investors will contract a third party (the DM) to manage the DIB on their behalf. Investors' upfront capital to pay for program delivery, as well as the verified output and outcome payments from the Outcomes Funder, will flow through the SPV, managed by the DM. An overview of the flow of funds and contractual arrangements is provided in Figure A2.2. In addition to overall performance management of the DIB once it is launched, the DM will be responsible for: (i) managing investor funds, (ii) procuring DIB service providers, (iii) paying for services delivered under the DIB from investor funds, and then (iv) issuing repayments to investors from the Outcomes Funder (WBG) upon independent verification of outputs and outcomes.

[13] In terms of measuring private capital mobilization in the results framework, the amount measured will be that included in the shareholders' agreements signed between the private investors and the SPV. This will be considered as capital committed and therefore counts as mobilized capital according to the World Bank definition mentioned on page 13.

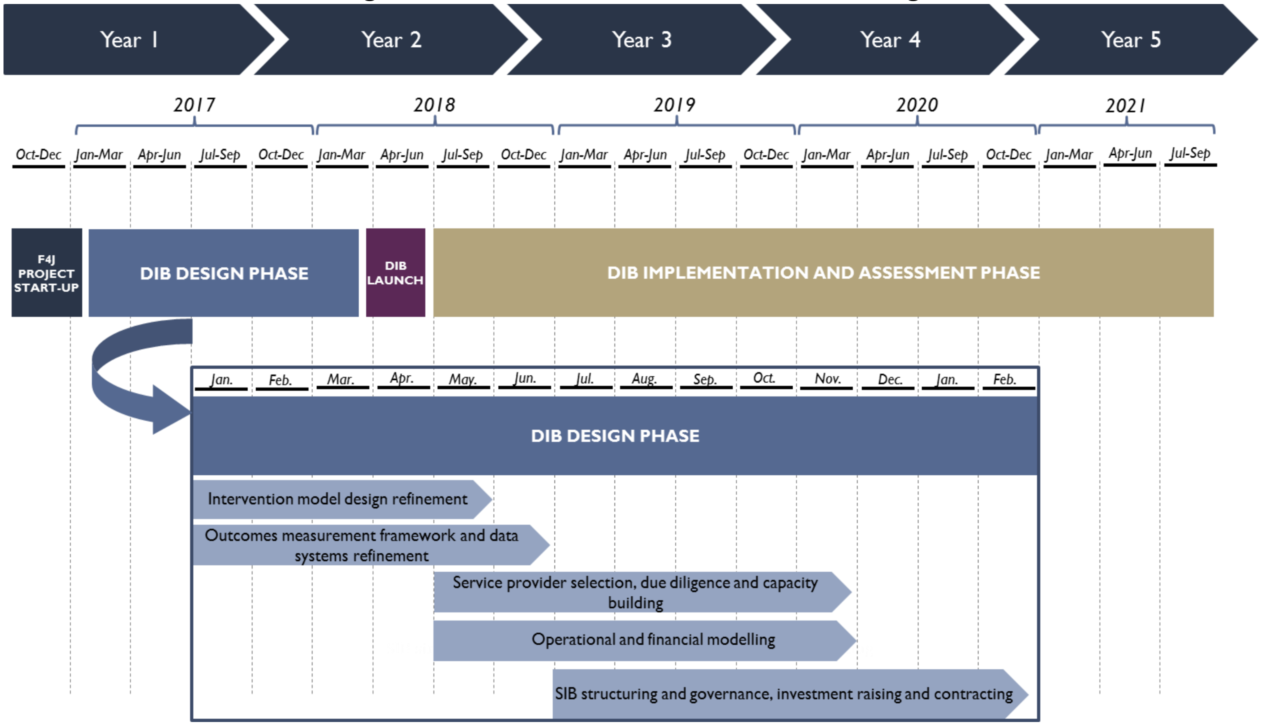
Figure A2.2: Possible DIB Structure in the West Bank and Gaza



Source: Social Finance 2017.

5. A snapshot of the proposed DIB timeline is included in Figure A2.3. The DIB design and capacity building largely takes place over Year 1 and the first half of Year 2 of F4J I. The D-Adv is responsible for designing the DIB to identify the optimal combination of activities and services required to deliver outcomes under the DIB. The D-Adv is also responsible for managing the capacity building provided to service providers, with a focus on enhancing private sector linkages. Other critical activities during this initial phase are the structure and setup of the M&E system and outreach to potential local and international investors. Shortly after the PIA's approval of the DIB proposition submitted by the D-Adv, the full DIB launch – meaning the constitution of the SPV with investor commitments – is expected to occur in the first quarter of 2018. The SPV Board will then recruit and contract the DM to manage implementation of the DIB and performance management on its behalf.

Figure A2.3: Potential DIB Timeline and Phasing



Source: Social Finance 2017.

6. After market readiness and capacity building is completed in F4J I and the DIB is formally launched in F4J II, the DIB will finance the delivery of training services provided to beneficiaries, depending on market need and identified employment opportunities. This could include: (i) specialized sector-specific training (e.g., hospitality, ICT, construction management); (ii) soft skills training (business English language, communications, problem solving, project management); (iii) salary contributions toward the cost of internship/apprenticeship placements; and (iv) matchmaking to link students to job placements, internships, and apprenticeships. As the Outcomes Funders, the WBG and SPF will not finance upfront the cost of the training intervention and purchased services, as in a traditional donor-financed model. Payment for the intervention and specific training services will initially be borne by investors, paid to service providers via the SPV. The WBG and SPF will instead be responsible for repaying investors via the SPV for these services in the form of output and outcome payments, which will be verified prior to repayment (further described below). As outlined in the results framework, these metrics include beneficiaries' program starts, completion of specialized training, placement into an apprenticeship/ internship/work-based training scheme, and sustained employment.

Financial Management

Implementing Entity

7. Fiduciary activities, including procurement and FM, will be handled by the PIA. The PIA has an Implementation Agreement (IA) with the MOFP and will manage the day-to-day financial management aspects of F4J II. The PIA reports

to the PC, who will endorse the reports and submit them to the Bank. The PIA and the PC will ensure that financial FM under F4J II is carried out in accordance with Bank procedures to ensure that the funds are used for the intended purpose.

Risk Analysis

Fiduciary Risks

8. The country level fiduciary risk level in the PA system is rated as high before mitigation**.** This is due mainly to deterioration in the financial reporting of the PA and delays in the issuance of public sector financial statements. The risk at the project level is mitigated through an experienced PIA which has good capacity and close supervision by the Bank team, as well as regular audits. The project level risk is rated substantial and there are current measures in place for the ongoing F4J I project which are applicable to F4J II to further reduce the risk. The entity level risk is rated moderate as the PIA has good experience managing similar projects and the PC at the MOFP has experience with World Bank policies and procedures. The overall FM risk is rated substantial and the procurement risk as stated below is moderate. The overall fiduciary risk is rated substantial.

Project Risks

9. The overall project risk from a financial management perspective is substantial. The FM arrangements for F4J II are similar to F4J I and are designed to ensure that funds are used for the purposes intended and that timely information is produced for project management and PA oversight, and to comply with the Bank's fiduciary requirements. Below are the main risks and mitigating measures:

Risk Assessment and Mitigating Measures

Risk	Risk Before MM	Mitigating Measures (MM)	Risk After MM
Inherent Risks:			
Country-level			
Inherent risk in the country is **High**	H	• F4J II will be ring fenced through the PIA (as in the F4J I project). Good capacity of the PIA and the PC will reduce the country level risks*. • A private external auditor will be hired to perform the annual audit of F4J II's financial statements.	S
Project-level			
There is a risk that the objectives will not be met, which will create ineligible expenditures and a risk of misappropriation.	H	• Bank supervision of Statement of Expenditure (SOE) reviews*. • Ex post audit measures (annual audit) by external auditor as well as technical audits.	S

Risk	Risk Before MM	Mitigating Measures (MM)	Risk After MM
Inherent Risk Before MM	H	**Inherent Risk after MM**	**S**
Control Risks:			
Project-level			
The decentralized implementation of project activities, involvement of the PIA, and coordination with the existing project management unit at the MOFP will require high capacity. There is a risk of unperformed or incomplete training programs as well as overstated outputs/outcomes. There is a possibility of misrepresentation of physical progress and misappropriation of funds under the ICF (Component 2).	H	• The MOFP project management unit has experience with Bank guidelines and there have been specific capacity-building activities for them. The PIA's assessment is satisfactory and they have the capacity to ensure that the fiduciary requirements are met*. • On-site supervision will be in place to verify performance of any training programs in Gaza. • Verification reports will be provided by an Independent Verification Agent (IVA) to verify outputs and outcomes (which will be agreed ahead of time) achieved by the DIB. • The IVA's TORs as well as F4J II's auditor's TORs and scope will explicitly include verification of agreed on deliverables. • A technical auditor will be hired for any projects in Gaza to verify, on a monthly basis, physical progress and compare it to financial progress.	S
Implementing Agency			

Risk	Risk Before MM	Mitigating Measures (MM)	Risk After MM
Lack of adequate capacity at the existing project management unit at the MOFP. Inadequate accounting and reporting system that can capture data for all F4J II activities. Financial Procedures Manual will have to be developed both at the PC and the PIA to meet F4J II's FM requirements.	H	• The PIA will manage F4J II, including all fiduciary aspects*. • The MOFP project management unit already has a well-functioning computerized accounting system*. The chart of accounts will be revisited to ensure applicability to F4J II. • The system is capable of opening a separate cost center to account for and report on F4J II transactions*. • A system is set up for the PIA to comply with fiduciary requirements*. • An OM was developed under F4J I and will be reviewed to ensure relevance to F4J II, including FM aspects.	S
Control Risk Before MM	**H**	**Control Risk After MM**	**S**
Overall FM Risk	**H**	**FM Risk After MM**	**S**

* Mitigating measure already in place due to ongoing F4J I project

Financial Management System

10. **Flow of funds and banking arrangements:** The TFGWB grant will be disbursed through a project-specific DA opened by the MOFP and operated by the PIA. There will be a second DA opened for the SPF grant which will also be opened by the MOFP and operated by the PIA. The PIA was assessed as satisfactory and an Implementation Agreement was signed between the MOFP and the PIA. The MOFP will open the two DAs denominated in US dollars into which replenishments from TFGWB and SPF grants will be transferred and will be used in financing of F4J II components according to the approved budget.

11. WAs submitted to the Bank will be prepared by the PIA, and signed by the authorized signatures at the MOFP and the PIA before submission to the Bank.

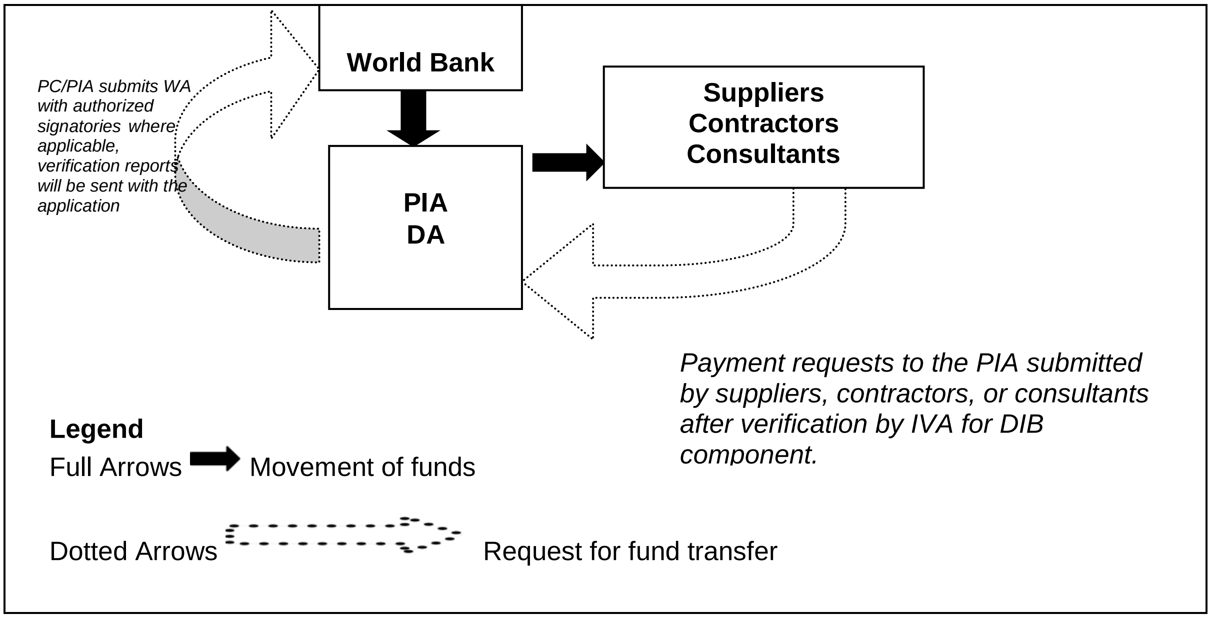
12. In addition to documenting F4J II expenditures through SOEs, for Component 1, outputs will be verified and verification reports will be used as additional measures to trigger withdrawals (whether for replenishing advances or for reimbursement). For the Bank to accept and process a WA, the eligible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

13. The PIA will vest the sole responsibility to disburse on behalf of F4J II to suppliers, contractors, and consultants. Additionally, the PC and the PIA will maintain a monthly reconciliation statement between their records and the Bank's records per the World Bank's Client Connection. Such reconciliation will set out the disbursements by category as well as the DA balance. Disbursement and payment requests will be based on approved contracts and services predefined in F4J II documents.

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

15. Figure A2.4 describes the funds flow for F4J II:

Figure A2.4 Flow of Funds for F4J II



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

17. **Financial section of the OM**: The MOFP prepared an OM covering all administrative, financial and accounting, budgetary, and human resources procedures relevant to the additional activities to be financed under F4J II. The OM describes the payment procedures, including controls and oversight arrangements.

18. **Staffing**. F4J II activities, including financial management, will be handled by the PIA. The PIA will keep all accounting records and ensure all transactions are recorded. The PC currently at the MOFP will also keep accounting

records and ensure that F4J II'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.

19. **Financial reporting and monitoring**: The PIA will have overall responsibility for financial management of F4J II. 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 periodic SOEs, withdrawal schedule, quarterly IFRs and annual financial statements; and (iii) ensuring that F4J II's FM arrangements are acceptable to the PA and the World Bank.

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

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

(i) Financial reports include a statement showing for the period and cumulatively (project life or year-to-date) inflows by sources and outflows by main expenditure classifications; opening and closing cash balances of F4J II; 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 Bank and counterpart funds separately);

(ii) A Statement of Cash Position for F4J II 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.

21. **Accounting policies and procedures**: F4J II accounts will be maintained on a cash basis of accounting augmented with appropriate records and procedures to track commitments and to safeguard assets. Accounting records will be maintained in US dollars.

22. **External audits**: The GA will require the submission of annual audited F4J II financial statements within six months after year-end. F4J II's financial statements will be annually audited by a qualified independent auditor acceptable to the Bank, in accordance with internationally accepted auditing standards, and terms of reference acceptable to the Bank.

23. The external auditors will be expected to express an opinion on the audited F4J II financial statements, on the eligible use of the Bank's contribution to F4J II, 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.

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

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

26. **Implementation support:** World Bank FM implementation support activities will include, but not be limited to review of SOEs, review of quarterly IFRs, and review of annual audited financial statements and management letters, as well as timely follow-up on issues raised by the external auditor. Field supervisions will be undertaken on a periodic basis during the life of F4J II. Bank implementation support missions will consist of visits to the PIA and the PC at the MOFP, and other stakeholders as necessary. Relevant documentation will be made readily available to Bank implementation support missions.

Disbursements

27. Disbursements from the Bank will use the four traditional methods: reimbursement, advance, direct payment, and special commitment. Reimbursement and Designated Account advance replenishment will follow the transaction-based method using SOE for documenting paid eligible expenditures. Customized SOE as per attached to the Disbursement Letter, specifically designed for output-based disbursement mechanism, will be used for the DIB Payment. 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.

28. Each grant will have a separate DA. DIB payments will be made from the SPF grant first and the TFGWB grant thereafter. Subsequent disbursements into the DA will be requested through WAs, reconciled bank statements, and copies of all bank statements. The supporting documentation for requests for direct payment should be records evidencing eligible expenditures (copies of receipt, suppliers' invoices). For Component 1, independent verification reports on the achievement of agreed outputs/outcomes and the amount to be paid will be required. The Bank will review the report and notify the Palestine Liberation Organization, through the PA to confirm fulfilment of achievement of outputs/outcomes and the payable amount.[14] For Component 2 (ICF payment), due to the specific nature of the financing mechanism, certain prerequisites will be required before disbursement; these are reflected as disbursement conditions in the GA.

[14] Payment amounts for outputs and outcomes will be defined by a Rate Card. A Rate Card is a comprehensive list of the contractual outcome metrics that the Outcomes Funder is willing to pay to see achieved. 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, income increase, or improvements in employment quality and productivity).

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

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

Agreed actions:

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

Table A2.1: Agreed Actions for F4J II

1. Budget – PIA to prepare annual budget based on the procurement plan by effectiveness date (expected by September 30, 2017).
2. Audit TOR – PC to prepare and submit the TOR of the auditor to the Bank for clearance after effectiveness (expected by September 30, 2017).

Procurement

32. The overall procurement risk rating for F4J II is moderate.

33. Procurement for F4J II shall be carried out in accordance with the "World Bank Procurement Regulations for Borrowers under Investment Project Financing", dated July 1, 2016, the GA, and the Procurement Plan for the project dated June 1, 2017 and approved by the Bank. The "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants," dated October 15, 2006 and revised in January 2011, shall apply to F4J II.

34. The PIA will continue to hold the overall responsibility for procurement following the same arrangements in place for F4J I and will act as the Bank's counterpart for all procurement aspects of F4J II. In particular, the PIA will carry out procurement for the Project Management component (Component 4) and other relevant central activities and will oversee procurement of service providers by the DIB under Component 1 and by grant recipients under Components 2 and 3. For all components, 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 and documented in the OM. F4J II will finance procurement of goods, minor works, nonconsulting services, and consultants' services for the capacity-building components. Given their demand-driven nature, procurement packages for Components 1, 2, and 3 may not be defined up-front. For Component 4, and other centrally-procured packages, the PIA prepared a procurement plan for the first 18 months of project implementation. The procurement plan was approved by the Bank on June 1, 2017.

35. The World Bank prior review thresholds for moderate risk rating implementing agencies or projects are outlined in the table below. In addition to prior review, the Bank will carry out two implementation support missions a year, including one ex-post procurement review.

Procurement Prior Review Thresholds (US$ millions)

Type of procurement	Prior Review Threshold
Works (including turnkey, supply & installation of plant and equipment, and PPP)	15
Goods, information technology and non-consulting services	4
Consultants: firms	2
Consultants: individuals	0.4

Environmental and Social (including safeguards)

36. The PIA staff will include a safeguards specialist with environmental impact assessment skills as well as with social safeguards skills (ESO), to be hired from the private sector. The terms of reference for this position are attached as an Annex to the ESMF. The ESO is expected to hold additional stakeholder consultations during F4J II implementation, as the DIB design is already actively underway under F4J I, as well as specific to each screened ICF subproject proposed for inclusion in F4J II.

37. The ESO training on environmental and social safeguards will be financed under F4J I, including, but not limited to: (i) pre-project screening, monitoring, and reporting; (ii) Palestinian Environmental Quality Authority and World Bank environmental and social safeguards standards; (iii) stakeholder consultations, grievance mechanisms, and involuntary resettlement; and (iv) design and preparation of subproject EMPs. Capacity building will be for MOFP staff, PIA staff, and interested parties from the private sector. The table and budget for the proposed training sessions are detailed in the ESMF.

38. Lastly, the ESO will advise and guide private sector investors of potential subprojects in the writing of terms of reference for individual EMPs as well as the steps involved in preparation and finalization of EMPs.

39. Implementation risks for environmental and social safeguards in F4J II are assessed to be moderate. The ESMF was prepared to guide preparation of subproject activities to be implemented and financed in F4J I, and was updated to reflect F4J II activities.

Monitoring and Evaluation

40. Given the important intrinsic learning that will take place across all activities financed by F4J II, M&E of results is a critical element of the F4J SOP. The World Bank team, in consultation with the MOFP, the Bank's internal DIME team, and external partners (Brookings Institution for the DIB), is responsible for the design, structure, and oversight of the M&E framework, starting with the results framework of both projects in the F4J SOP. This is particularly important for the DIB, given that this component will involve the first piloting of a DIB done by the WBG and will provide a precedent for any subsequent DIBs.

41. Evaluation methodologies and implementation plans will be finalized by end of 2017, and will be applied to the entire F4J SOP. This will ensure that robust baselines are established and verified by the PIA. The unique character

of the three financial instruments to be tested will require that different monitoring and evaluation approaches be deployed in each case. For instance:

- **DIB:** As indicated above (paragraph 30), the SPF has provided additional financing to fund a robust impact evaluation of the DIB. The DIB is likely to deal with a heterogeneous group of beneficiaries with varying job aspirations and educational backgrounds who are spread across different geographies. Moreover, it is expected that recruitment of DIB beneficiaries program will be an ongoing process. These conditions make the job of matching an intervention group to a counterfactual more complex, and a range of potential evaluation methodologies will need to be considered, each with its own set of pros and cons.

- **EE-MG**: In the case of matching grants, a randomized control experiment is not likely to be feasible as this methodology requires a statistically robust sample of non-beneficiaries taken from the same eligible pool of firms that were given matching grants – in other words a sufficient oversubscription of eligible beneficiaries. This will not be the case given that F4J II targets a relatively limited number of investment funds to receive the EE-MG.

- **ICF**: This instruments' evaluation methodology will need to be a case study approach, benchmarked against investment-to-job outcomes established by sector by the CGE model developed for F4J II.

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

43. The operational aspects of the M&E framework are presented in the OM. Relevant tasks will include: (i) development of the M&E methodology and implementation plan and approach to be taken for the compilation of baseline data requirements, as determined by the methodology adopted; (ii) preparation of quarterly, half yearly, and annual project monitoring reports, containing summary data on overall performance against targets; (iii) annual and semiannual M&E reviews and lessons-learned workshops to ensure the M&E function enhances the F4J II outcomes. Once the specific DIB design is finalized, it will also outline the methodology and implementation plan for the DIB impact evaluation.

44. F4J II will ensure that effective and participatory M&E arrangements are established consistent with a robust M&E function. These include: (i) establishment of "third-party," demand-based feedback arrangements with key stakeholder groups; and (ii) respect for diversity in participation by allowing space for women, the poorest, and marginalized social/ethnic groups to participate.

Role of Partners (if applicable)

45. A range of analytical and TA activities supported by development partners were conducted at the design stage of F4J II, some of which will extend to provide implementation support. DFID's resources dedicated toward the development of key F4J II components – as described in the main document – will contribute to development of the M&E framework during the early stage of F4J II implementation. Similarly, the close coordination and consultations with Brookings Institution in the DIB's design stage are expected to extend through F4J II implementation given its knowledge theme.

46. As discussed previously, with job creation increasingly a principal development challenge for the West Bank and Gaza, additional financial and technical support from development partners is anticipated during the life of F4J II implementation.

47. In the context of WBG implementation supervision, the design of F4J II will require cooperation with IFC, especially with regard to the common engagement under the ICF’s first mover subproject (GIE PV Solar Panel Subproject). This includes benefiting from synergies during the financial analysis, due diligence, and supervision of the F4J II subproject. Similar collaboration is anticipated if MIGA underwrites a policy under the same subproject.

ANNEX 3: IMPLEMENTATION SUPPORT PLAN

COUNTRY: West Bank and Gaza
Finance for Jobs II

Strategy and Approach for Implementation Support

1. **The challenge**: In view of the innovative approach being taken in this "high-risk" project – preparing the ground for new financial instruments and applying new implementing arrangements – for both the PA and the WBG, higher than standard level of implementation support is anticipated throughout the F4J II implementation.

2. As detailed below, F4J II will require extensive cross-WBG cooperation (with IFC investment and MIGA) and within the World Bank, and outreach to other prospective partners to contribute to the overall F4J SOP, potentially through establishment of an MDTF.

3. **Aligning team composition:** There are several key considerations:

- **Project management team:** A core task management team will comprise co-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 – procurement, financial management, and disbursement (based in Zagreb). This coordination will provide sustained implementation support, including related work to develop the output/outcome arrangements needed for implementation of the DIB under Component 1.

- **Core Bank Group project team technical skills requirements:** F4J II will require ongoing support from "principal" GPs and 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) F&M – regional team, SME Finance and Global Solutions, Infrastructure Finance (project finance); (ii) Trade & Competitiveness (T&C) – Entrepreneurship and Innovation, Investment Climate (Public-Private Dialogue [PPD]); and (iii) Education and SP&L -- through their joint collaboration on the Skills Development and the Jobs Group, particularly in jobs measurement methodologies, including development of the SRR methodology.

- **Monitoring and evaluation:** Given the special attention being paid to the development of the evaluation methodology and framework for this performance-based project, the team will collaborate closely with the Bank's DIME team in the Development Economics Group (DEC), as well as with the Brookings Institution on the DIB. It is expected that an M&E Specialist will be needed given the importance of results measurement and learning within the F4J SOP.

- **Consultant requirements:** WBG expertise will be complemented as required through the recruitment of specialized short-term consultants (STCs).

4. **Specific responsibilities by project component:** Under the overall supervision of the F&M co-TTLs, main responsibilities are as outlined below:

Component 1 – DIB

- F&M Regional and Global Solutions, together with Governance Fiduciary teams and supported by T&C Regional and Investment Climate/PPD, Education and SP&L Skills Development, Gender CCSA, and DIME/DEC

Component 2 – ICF

- F&M Infrastructure Finance (project finance) supported by T&C Competitive Industries, SP&L team and PPP CCSA, Safeguards, IFC, MIGA, and other infrastructure GPs

Component 3– EE-MG

- F&M Finance and Global Solutions together with T&C Entrepreneurship and Innovation and Governance Fiduciary teams

Component 4 – Project Management

- Co-TTL GP leads supported by Governance-Fiduciary, DIME/DEC, and Safeguards

5. **Implementation support sequencing:** The two F4J projects will ultimately be implemented with some overlap. F4J I deployed the EE-MG, which will continue (at zero cost) under F4J II. Capacity building for the ICF and DIB took place under the framework of F4J I. F4J II will pilot these two instruments.

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.
Project Finance Expert	10	7	Two per year for first three years and one per year for year 4.
Jobs and Skills Development Expert	12	8	Two per year throughout project.
Gender[15]	12	6	Two per year in first two years and one per year for the last two years of the project.
M&E	5	5	One per year. Two in MTR year.
Social and Environmental Safeguards	8	4	Twice yearly; 50% trip.
Fiduciary	14	5	One per year, including travel for project (for example, international investor outreach) and knowledge exchange on performance-based DIB learning.
Total	157	47	
Partner Institutions			
Brookings Institution	8	2	Global knowledge exchange on the DIB.

15 These numbers were estimated in consultation with the Gender CCSA.

ANNEX 4: DEVELOPMENT IMPACT BOND FOR JOBS AND SKILLS DEVELOPMENT

Introduction: Innovative finance and the global development agenda

1. The UN's post-2015 development agenda coalesces around a set of 17 Sustainable Development Goals (SDGs) that target significant progress by 2030 on the most critical economic and social challenges facing developing countries. The resource implications for making progress on, and ultimately achieving, the SDGs in this timeframe are significant. Estimates for the total investment needed range from US$3–4.5 trillion per year. Official Development Assistance from donors and public sector governments alone will not be sufficient to meet these demands, particularly in the face of increasing budgetary pressure. At the same time, only a portion of the world's private sector assets, including those of banks, pension funds, insurers, foundations, and corporations, are currently invested in the sectors targeted by the SDGs in developing countries. Increased private sector participation, as well as a renewed focus on results, will be needed to bridge the global development finance gap and ensure resources are put to their most effective use.

2. Effectively and efficiently putting development resources to use, in leveraging additional private investment and achieving measurable, sustainable results is an ongoing challenge. DIBs offer an alternative form of public-private collaboration that shifts the way that this capital is used and private sector participate in the achievement of improved development outcomes.

3. These challenges in eradicating global poverty have resulted in a nascent but growing movement toward more innovative, results-oriented financing mechanisms. Results-based approaches incentivize and reward performance by paying for services only after pre-agreed results are achieved and verified. At the same time, the conversation has shifted toward how to better mobilize the abundance of untapped private sector capital and knowledge to turn economic and social challenges into investible opportunities. The World Bank Group, in its strategic development agenda for 2030, also put a strong emphasis on mobilizing private investment to bring sustainable and scalable solutions to development challenges.[16] Socially responsible investing and corporate social responsibility efforts by multinational corporations continue to grow, bringing a welcome entrepreneurial mentality and private sector dynamism to global development challenges.

Impact Bonds: What are they and how do they work?

4. Social impact bonds (SIBs), and more recently development impact bonds (DIBs), emerged within the last several years as an innovative financing model that leverages private sector investment and focuses on achieving results. Upfront capital is provided by private investors who are repaid only if agreed-upon social and economic outcomes are achieved. This shifts the nature of the development challenge from a problem to an investible opportunity. SIBs and DIBs differ from more traditional results-based financing in that they introduce incentives for performance based on investors' desire to recover their investments and maximize their returns. As a result, investors bring a more effective, efficient, and dynamic private sector mentality to the delivery of the intervention. SIBs are typically used in developed country contexts, whereby a government pays back investors; in the DIB model, donors or foundations repay investors (a combination of government and donor(s) is possible as well). Since the first SIB was launched in 2010 in the United Kingdom, 69 impact bonds have been deployed in 16 countries across 10 sectors. Two DIBs are currently contracted in developing countries, while a number of DIBs, including the proposed

[16] Forward Look: A Vision for the World Bank Group in 2030. September 20, 2016.

DIB under the West Bank and Gaza Finance for Jobs Series of Projects (F4J SOP), are currently in the exploratory and design phase.

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

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

7. Though impact bonds are a relatively new instrument that will ultimately need to be tested and measured, evidence is mounting in favor of their effectiveness. A 2015 report by the Brookings Institution examined experiences with SIBs and DIBs to date and found that impact bonds lead to a shift in focus to outcomes and increased transparency and accountability about achieving results. [17] Second, by bringing the private sector mentality into the provision of services, impact bonds drive more effective and efficient performance management. Third, impact bonds stimulate collaboration among stakeholders. They also support the development of strong M&E systems. Finally, DIBs can shift the focus of government away from remedial or corrective services toward more proactive, preventative services.

8. Recent trends indicate that the impact bond market is growing; over 2016, the number of impact bonds grew by 21 percent. The Brookings Institution predicts that another 20 transactions may launch in 2017 across low-, middle- and high-income countries. As more impact bonds enter the market, more research will be needed to evaluate their effectiveness. It is encouraging, however, that the world's first DIB, which targets girls' education in India, improved learning by 23 percent among targeted beneficiaries in its first year.

Rationale for a DIB for skills development for West Bank and Gaza youth

9. A pilot DIB is proposed to address youth and female unemployment outcomes in the West Bank and Gaza under the F4J SOP. The proposed US$5 million DIB will focus on enhancing the skills of the Palestinian workforce; specifically, an estimated cohort of 1,500 to 2,000 youth (depending on final DIB design) aged 18–29 years (with at least 30 percent women). The rationale stems from evidence and ongoing consultations with leading private sector stakeholders, who indicate that a lack of private sector-oriented skills development and skills mismatches, particularly among youth and women, are key hindrances to private sector employment outcomes. The 2014 Dialogue for Palestinian Jobs Creation (DPJC), conducted in partnership with the World Bank Group, the Palestinian Authority, and the Palestinian private sector, confirmed these as key constraints in need of innovative public-private solutions.[18]

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[17] Brookings Institution, "The Potential and Limitations of Impact Bonds: Lessons from the first five years of experience worldwide." July 2015.

[18] Finance for Jobs Project Appraisal Document, Annex 5: Proceedings of the Dialogue for Palestinian Job Creation Initiative (pp.56-65).

10. Evidence shows that job openings are available in the Palestinian labor market, but graduates often do not possess the skills or practical experience demanded by the private sector to effectively compete for and fill these available jobs. Though the Palestinian labor force is becoming more educated and has experienced a doubling of students every 15 years, labor force participation remains low (43 percent overall; 19 percent for women) and unemployment remains high (27 percent). Youth and women experience particularly acute labor market outcomes. Unemployment is high among youth aged 20–24 years, at 45.6 percent, with the highest unemployment rate (47.1 percent) among women with 13 years of education or more. In addition to filling current openings, there is also a need to position the young workforce for future private sector work that will require job-ready, skilled employees.

11. One of the underlying causes for suboptimal outcomes in the Palestinian labor market is that the skills development sector – which includes training providers, technical and vocational training schools, universities, the Ministries of Labor and Education, and donors funding skills-related interventions – remains underdeveloped, uncoordinated, and inadequately linked to the private sector. As the 2013 S*ystems Approach for Better Education Results (SABER) Report* found, the West Bank and Gaza has the lowest average workforce development scores in the region due to deficiencies in M&E, quality of training provided, and coordination (within the government, between training institutions and employers, and with donor funding programs).

12. There is little robust evidence that traditional donor interventions to date to address these issues (totaling over US$140 million since 2001 in the West Bank and Gaza) have yielded the desired outcomes. A range of programs have been delivered across the various stages in the journey from education to employment, though many were implemented with little coordination or sufficient linkages to the needs of the private sector. Employment outcomes information and data have been ad hoc and mostly self-reported, making it difficult to ascertain the value added of various approaches. Data collection on results and outcomes has also been largely short-term (approximately 12 months or less) and offers a simple “before and after” snapshot of program impact. Discussions with key stakeholders identified that there is little evidence for what works where and why and a need to build a greater understanding of the key drivers of success via focusing on the whole journey of a young person, from finishing formal education to training and employment.

13. The proposed DIB will be framed as a learning initiative to determine whether a DIB would meet the needs identified above more efficiently and effectively than traditional instruments in the skills development sector. Specific issues include: (i) lack of stakeholder coordination and private sector engagement; (ii) lack of tangible incentives to focus on outcomes; (iii) weak monitoring and measurement; and (iv) inflexible implementation arrangements. Most importantly, because interventions have typically been supply-side focused and not driven by current market demand, they have not been adaptable to changing market needs. Under the DIB, investors are only repaid based on the achievement of results, so their incentives are realigned toward outcomes, rather than on program expenditures and inputs. DIB investors have a strong incentive to ensure that the various service providers involved in delivery remain on track. Detailed data analysis and monitoring of service provider performance allow investors to manage their risk and intervene or modify delivery of the interventions at an early stage if necessary. The DIB model also offers a clear management and governance structure, with a DIB Manager (DM) having overall responsibility for bringing actors together to deliver the intervention.

Risks and Mitigations

14. A number of key risks should be considered and mitigated against to the extent possible within the design and deployment of the DIB. These risks and mitigation measures are described below and comprise institutional, operational, and commercial risks.

Institutional Risk – Government's Capacity and Commitment

Risk: Effectively managing an innovative financial structure such as the DIB requires a certain level of capacity, which the PA does not have.

Mitigation: A firm or firms with the required expertise will be hired to manage the DIB (the D-Adv and the DM). Notwithstanding this, the PA needs to have the capacity to manage such externally provided expertise and follow through on recommendations. F4J I includes a capacity-building component for the government on this.

Operational Risk – Availability of a Quality DM and Good Service Providers

Risk: The availability of a high-quality and experienced DM will be essential to the success of the DIB. Given the political situation in the West Bank and Gaza it may be difficult to attract the level of expertise needed. The availability of service providers that can conduct training/education at a level that satisfies the needs of the private sector is also essential to the success of this component. The level of quality of providers in the West Bank at present is not high enough.

Mitigation: During the assessment phase, the project team identified some organizations that could qualify as DMs. Discussions with these organizations were arranged to attract interest in the project. In addition, the team identified a number of education providers that were closer than others to the level of quality required.

Operational Risk – Underperformance of DM and Service Providers

Risk: In addition to the appropriate structuring of output-outcome payments, it will be important to mitigate the risk of underperformance of the DIB. Investors will be incentivized to ensure outcomes are achieved due to the potential for: (i) commercial returns on (or at least recovery of) their investments, and (ii) social returns, given that many DIB investors are likely to have a social mission as well (the balance of desired financial versus social outcomes will vary depending on the organization). However, there is the risk that the DM and service providers will have weaker incentives to achieve outcomes, thereby increasing the risk of underperformance of the DIB.

Mitigation: The DM will have overall responsibility for bringing together various actors to deliver the intervention and ultimately produce the desired results. In comparison with traditional, more input-driven programs, the DM will be motivated only by the need to achieve agreed outputs and outcomes, not by pressure to implement predefined input-oriented programs. Service providers will be incentivized at various levels to achieve outcomes, in addition to appropriately balancing the output-outcome mix in the Rate Card approach described above. Due diligence on service providers is ongoing under F4J I to ensure adequate operational and management capability to participate in the DIB. Service providers will then be competitively selected based on specific eligibility criteria (with input from investors). During the course of the DIB, frequent and transparent reporting to the Outcomes Funder and investors will highlight any performance issues early on, with flexibility for adjustments as needed. Escalation and remedial processes will be built into service providers' contracts. There will also be the possibility of replacing service providers (or even the DM) in the case of underperformance and if remedial efforts prove ineffective. Another possible option is sharing some of the potential returns with service providers. However, given the small Palestinian market and the reputational risk associated with nondelivery of the DIB outcomes, more drastic mitigation measures are not expected to be needed.

Commercial Risk – Attracting the Private Sector to Invest in the DIB

Risk: The DIB is a new financial structure, and investors could be hesitant to take the risk of investing in such an innovative tool, especially when the criteria for payment (employment of a certain number of unemployed people) will be influenced by many uncontrollable factors, including political stability.

Mitigation: A number of private sector companies expressed interest in the DIB during the scoping and assessment missions. In addition, one of the main roles of the D-Adv and the PIA during F4J II will be to raise investor finance. To address the risk of final payments, the DIB will be structured to allow for payments against outputs during the lifetime of F4J II to ensure some payments within a reasonable time period. Attention will need to be paid to ensure a balance of high-risk outcomes and lower-risk outputs in the payment matrix so that investors have some built-in mitigation against downside loss. In other words, payments are linked to both outputs (training completed) and outcomes (jobs). Calibrating the payment matrix to ensure that it is not skewed in favor of the Outcomes Funder or DIB investors will be a critical element in its overall success. Based on global experience with DIBs to date, the currently proposed mix of output-outcome payments is appropriate given the nascent DIB market in the West Bank and Gaza. Also, market sensitizations will be conducted to test the market and amend the DIB structure accordingly.