BASIC INFORMATION

A. Basic Project Data

<table>
<thead>
<tr>
<th>Country</th>
<th>Project ID</th>
<th>Project Name</th>
<th>Parent Project ID (if any)</th>
</tr>
</thead>
<tbody>
<tr>
<td>West Bank and Gaza</td>
<td>P172571</td>
<td>Technology for Jobs</td>
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<table>
<thead>
<tr>
<th>Region</th>
<th>Estimated Appraisal Date</th>
<th>Estimated Board Date</th>
<th>Practice Area (Lead)</th>
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<tr>
<td>MIDDLE EAST AND NORTH AFRICA</td>
<td>09-Apr-2020</td>
<td>29-Apr-2020</td>
<td>Finance, Competitiveness and Innovation</td>
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<table>
<thead>
<tr>
<th>Financing Instrument</th>
<th>Borrower(s)</th>
<th>Implementing Agency</th>
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</thead>
<tbody>
<tr>
<td>Investment Project Financing</td>
<td>Ministry of Telecommunications and Information Technology, PALESTINIAN LIBERATION ORGANIZATION (for the benefit of the Palestinian Authority)</td>
<td>Ministry of Telecommunications and Information Technology via a private sector implementing agency</td>
</tr>
</tbody>
</table>

Proposed Development Objective(s)

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

Components

- Improving IT service capabilities
- Improving the IT services ecosystem
- Improving market access, and increasing demand and investments
- Project management

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Total Project Cost</td>
<td>15.00</td>
</tr>
<tr>
<td>Total Financing</td>
<td>15.00</td>
</tr>
<tr>
<td>of which IBRD/IDA</td>
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<tr>
<td>Financing Gap</td>
<td>0.00</td>
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DETAILS
B. Introduction and Context

Country Context

1. **Economic momentum faltered at the start of 2019 and the economy is in a technical recession.** After two strong quarters at the end of 2018, preliminary data by the Palestine Central Bureau of Statistics (PCBS) show that the growth of real Gross Domestic Product (GDP) in the Palestinian territories weakened in the first three quarters of 2019, first contracting by 3.3 percent in the first quarter of the year compared to the previous quarter, then by an additional 2 percent in the second quarter, before returning to a positive 1 percent in the third quarter. Looking forward, growth was expected to slowly recover and average around 2.5 percent in the coming years; however, the outbreak of COVID-19 has significantly heightened risks associated with this outlook; World Bank analysis of the pandemic’s effect on the economy, instead, suggests lower short term growth, a reduction in per capita income, and a rise in unemployment.

2. **Job creation has been sluggish, leaving unemployment high—and economic participation of women is deeply constrained.** Since the mid-1990s, the labor force has increased by nearly a million Palestinians; over the same period, the public and private sectors have only created half a million additional jobs.¹ This has resulted in stubbornly high unemployment, which as of the second quarter of 2019 was 26 percent across the West Bank and Gaza—and similar to the unemployment level in 2018. While male labor force participation in the West Bank and Gaza was 71 percent in 2016, female participation was 18 percent—lowest in the MENA region and a basket of comparable countries² have an average female labor force participation rate of 39 percent.³ Economic constraints on women in

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² Jordan, Bosnia and Herzegovina, and Moldova
the Palestinian territories are thought to be the result of mobility restrictions that have an outsized impact on females.\(^4\)

3. **The Palestinian economy**—encountering trade restrictions and a lack of access to resources—**suffers from a lack of diversification.** Such resource and import / export constraints are leading to a continuing decline in the productive base of the economy. Over the last twenty-five years, the share of manufacturing in the economy has halved, while agriculture is only one third of its previous size.\(^5\) Regarding the business climate, Palestinian firms face formidable constraints to investment and job creation, although there has been some progress in this area. Productive investments are inhibited by a patchwork regulatory climate which has been vulnerable to capture by vested interests.\(^6\) While it is not seen as an impediment for large firms, access to finance continues to be a challenge for small and medium enterprises (SMEs) and informal firms. SMEs also suffer from power cuts and costly back-up arrangements to secure critical basic services, particularly in Gaza.\(^7\)

### Sectoral and Institutional Context

4. **In a context of restrictions on the movement of people and goods and high trade logistics costs, IT services**\(^8\) **have provided an avenue for export growth.** While service exports have been on the rise in the past two decades in the West Bank and Gaza, at $612 million in 2018 up from $460 million in 2000, a disproportionate share of this growth - 28% - has been powered by ICT service exports.\(^9\) ICT service exports accounted for 15% of service exports in 2017, up from 0.6% in 2000, and stood at $86 million in 2017.\(^10\) The Palestinian IT sector, a subset of the ICT sector\(^11\), has benefited from this growth in exports. More than 3,700 people are employed in the IT services sector, of which more than 2,679 people are employed in outsourcing. Palestinian IT and business process services industry output stood at US$126 million in 2017,\(^12\) growing at 6% annually since 2010.

5. **Some of this growth has been fueled by demand from multinational corporations (MNCs) with a growing footprint in the region but facing tight labor markets for engineers and computer scientists, coupled with a growing and untapped labor pool in the West Bank and Gaza’s IT sector.** Throughout the region countries have been adopting policies aimed at building innovation-driven economies. However, MNCs R&D is facing new challenges in the region due to labor shortages. To cope with the

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\(^4\) World Bank May 2017 Economic Monitoring Report to the Ad Hoc Liaison Committee  
\(^5\) FY18-21 World Bank Group Assistance Strategy for the West Bank and Gaza  
\(^8\) IT services sector: a subset of the ICT sector, includes wholesale of information and communication equipment; software publishing; computer programming, consultancy and related activities; data processing, hosting and related activities; web portal;. Source: Refer to NACE Rev.2 sectors of economic activity within the ICT sector definition (https://ec.europa.eu/eurostat/cache/metadata/en/isoc_se_esms.htm)  
\(^9\) Note that trade data is available for ICT service exports, but not for IT service exports, a subset of ICT service exports.  
\(^10\) World Bank, World Development Indicators  
\(^11\) ICT sector: the production (goods and services) of an ICT industry must primarily be intended to fulfil or enable the function of information processing and communication by electronic means, including transmission and display.  
\(^12\) 102 million GBP
shortage of talent and reduce costs, MNCs resort to outsourcing\textsuperscript{13} and offshoring solutions. At the same time, there is an abundant labor market for engineering and computer science in the West Bank and Gaza, with unemployment rates in those two professions being high. With more than 3,000 engineering and computer science graduates each year, in 2018 percentage of unemployment\textsuperscript{14} among computer sciences graduates has been 43% among males and 75% among females, and for engineering graduates was 39% among males and 69% among females. For context, the overall labor force size (age 15+) in the West Bank and Gaza was just over 1.2 million in the 2017 Census.\textsuperscript{15}

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)
To increase economic opportunities for IT service firms in the West Bank and Gaza

Key Results

- The value of new contracts signed between local IT service firms benefiting from project activities and international buyers.

- Additional private investment made by firms benefiting from project activities towards technology and skill upgrading provides.

- Additional high-skilled IT service jobs created by local firms benefiting from project activities.


D. Project Description

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

7. Project components include:
   i. Improving the IT service capabilities
   ii. Improving the IT services ecosystem
   iii. Improving market access, and increasing demand and investments
   iv. Project management and monitoring

Legal Operational Policies

<table>
<thead>
<tr>
<th>Legal Operational Policies</th>
<th>Triggered?</th>
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<tbody>
<tr>
<td>Projects on International Waterways OP 7.50</td>
<td>No</td>
</tr>
<tr>
<td>Projects in Disputed Areas OP 7.60</td>
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</tr>
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Summary of Assessment of Environmental and Social Risks and Impacts

E. Implementation

Institutional and Implementation Arrangements

The development of the Palestinian tech ecosystem needs a professional entity with extensive international and local expertise in private sector development to tackle the binding constraints of the ecosystem, and strong credibility with the private sector. Implementation will be undertaken via the PA through a uniquely qualified firm, DAI, on sole source basis, to act as Project Implementation Agency (PIA). DAI is already implementing the World Bank’s Finance for Jobs and Innovative Private Sector Development projects. DAI has a long experience in implementing private sector development projects in West Bank and Gaza that a) improved firm capabilities in IT sector, b) developed assessments of the outsourcing capabilities and opportunities for Palestinian companies to growth, including market analysis; c) supported business linkages in outsourcing by linking local companies with global markets; d) has experience in managing incentives and grants for companies in tech sector; e) supported skills development incentives for on-the-job training. The PIA will be responsible for project procurement, FM, disbursement, and M&E in accordance with the signed IA and following the procedures to be outlined in the POM. The signing of IA with DAI will be a condition for effectiveness.
World Bank

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Senior Private Sector Specialist

Jean-Louis Charles Racine
Senior Private Sector Specialist

Borrower/Client/Recipient

Ministry of Telecommunications and Information Technology
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Deputy Minister
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PALESTINIAN LIBERATION ORGANIZATION (for the benefit of the Palestinian Authority)

Implementing Agencies

Ministry of Telecommunications and Information Technology via a private sector implementing agency
Jamil Zagharneh
Deputy Minister
deputyminister@mtit.gov.ps

FOR MORE INFORMATION CONTACT

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Web: http://www.worldbank.org/projects

APPROVAL

Task Team Leader(s):
Mirela-Iulia Cojocaru
Jean-Louis Charles Racine
**Approved By**

<table>
<thead>
<tr>
<th>Role</th>
<th>Name</th>
<th>Date</th>
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<tbody>
<tr>
<td>Environmental and Social Standards Advisor:</td>
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<tr>
<td>Practice Manager/Manager:</td>
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<tr>
<td>Country Director:</td>
<td>Ranjana Mukherjee</td>
<td>11-Apr-2020</td>
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