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Report No: PAD2835

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED GRANT

IN THE AMOUNT OF US$13 MILLION

FROM THE TRUST FUND FOR GAZA AND WEST BANK

TO THE

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

FOR AN

INNOVATIVE PRIVATE SECTOR DEVELOPMENT PROJECT

May 10, 2018

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

CURRENCY EQUIVALENTS
(Exchange Rate Effective April 30, 2018)

Currency Unit =	Israeli New Shekel (ILS)
ILS 1 =	US$0.28
US$1 =	ILS 3.59

FISCAL YEAR
January 1 – December 31

Regional Vice President:	Hafez M. H. Ghanem
Country Director:	Marina Wes
Senior Global Practice Director:	Ceyla Pazarbasioglu-Dutz
Practice Manager:	Jean Pesme
Task Team Leaders:	Iulia Cojocaru, Ali H. Abukumail, Karim Ouled Belayachi

ABBREVIATIONS AND ACRONYMS

AS	Assistance Strategy
B2B	Business-to-Business
CGAP	Country Gender Action Plan
CIFP	Caribbean Investment Facilitation Project
DA	Designated Account
DIB	Development Impact Bond
E2WTP	Education to Work Transition Project
F4J	Finance for Jobs
FM	Financial Management
GA	Grant Agreement
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GIZ	German Agency for International Cooperation (*Deutsche Gesellschaft Fur Internationale Zusammenarbeit*)
GNI	Gross National Income
GoI	Government of Israel
GP	Global Practice
GRS	Grievance Redress Service
GSBD	Government Services for Business Development
GSG	Gaza Sky Geeks
HBB	Home-Based Business
HNWI	High Net Worth Individual
IA	Implementation Agreement
ICT	Information and Communication Technology
IFC	International Finance Corporation
IFR	Interim Financial Report
IPSD	Innovative Private Sector Development
ISP	Implementation Support Plan
ISR	Implementation Status and Results Report
IT	Information Technology
M&E	Monitoring and Evaluation
MENA	Middle East and North Africa
MOFP	Ministry of Finance and Planning
MONE	Ministry of National Economy
MSMEs	Micro, Small, and Medium Enterprise
MTR	Midterm Review
NGO	Nongovernmental Organization
OECD	Organisation for Economic Co-operation and Development
PA	Palestinian Authority

PCBS	Palestine Central Bureau of Statistics
PDO	Project Development Objective
PE	Private Equity
PIA	Project Implementation Agency
POM	Project Operations Manual
PPSD	Project Procurement Strategy for Development
PSEF	Private Sector Enhancement Facility
SMEs	Small and Medium Enterprises
SOE	Statements of Expenditure
SOP	Series of Projects
SORT	Systematic Operations Risk-Rating Tool
TA	Technical Assistance
TFGWB	Trust Fund for Gaza and West Bank
UN	United Nations
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East
VC	Venture Capital
WA	Withdrawal Application
WB&G	West Bank and Gaza

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
01-June-2018	15-Nov-2023	C - Not Required

Bank/IFC Collaboration	Joint Level
Yes	Complementary or Interdependent project requiring active coordination

Proposed Development Objective(s)

To improve economic opportunities for individuals and firms in the West Bank and Gaza.

Components

Component Name	Cost (US$, millions)
Entrepreneurship Ecosystem Development	8.40
Building an Outsourcing Hub in Gaza	2.95
Project Management	1.65

Organizations

Borrower:	PALESTINIAN LIBERATION ORGANIZATION (for the benefit of the Palestinian Authority)
Implementing Agency:	Ministry of National Economy

PROJECT FINANCING DATA (US$, Millions)

[ ] Counterpart Funding	[✓] Trust Funds	[ ] Parallel Financing

Total Project Cost:	Total Financing:	Financing Gap:
13.00	13.00	0.00
	Of Which Bank Financing (IBRD/IDA): 0.00	

Financing (in US$, millions)

Financing Source	Amount
Special Financing	13.00
Total	**13.00**

Expected Disbursements (in US$, millions)

Fiscal Year	2018	2019	2020	2021	2022	2023	2024
Annual	0.00	0.64	0.99	1.75	2.95	4.30	2.36
Cumulative	0.00	0.64	1.63	3.39	6.34	10.64	13.00

INSTITUTIONAL DATA

Practice Area (Lead)

Finance, Competitiveness and Innovation

Contributing Practice Areas

Macroeconomics, Trade and Investment

Climate Change and Disaster Screening

This operation has not 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	High
5. Institutional Capacity for Implementation and Sustainability	High
6. Fiduciary	Substantial
7. Environment and Social	Low
8. Stakeholders	High
9. Other	Substantial
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

Schedule 2, Section I, C.4 of the Grant Agreement: No later than 180 days from the Date of Effectiveness, the Recipient shall, through the Palestinian Authority, cause the cause the Ministry of National Economy to ensure that the PIA enter into a Management Agreement with GGateway, under the terms and conditions set forth in the POM and acceptable to the World Bank.

Conditions

Type	Description
Effectiveness	5.01 (c) of the Grant Agreement: The Project Operations Manual, has been adopted by the Recipient, on behalf of the Palestinian Authority, in a manner acceptable to the Bank.
Effectiveness	5.01 (d) of the Grant Agreement: An Implementation Agreement, acceptable to the World Bank, has been executed on behalf of the Palestinian Authority and the PIA.

Type	Description
Disbursement	Schedule 2, Section IV,.B.1 (b) of the Grant Agreement: no withdrawal shall be made for payments made under Category 2, unless a Management Agreement is entered into between GGateway and PIA, on behalf of the Recipient, containing terms and conditions acceptable to the Bank.

PROJECT TEAM

Bank Staff

Name	Role	Specialization	Unit
Mirela-Iulia Cojocaru	Team Leader(ADM Responsible)	Private Sector Development	GFCMW
Ali H. Abukumail	Team Leader	Private Sector Development	GFCME
Karim Ouled Belayachi	Team Leader	Private Sector Development	GMTCI
Lina Fathallah Rajoub	Procurement Specialist(ADM Responsible)	Procurement	GGOPM
Riham Hussein	Financial Management Specialist	Financial Management	GGOMN
Abdalwahab Khatib	Team Member	Financial Sector	GFCMW
Abdel Karim Samakie	Team Member	Entrepreneurship	GFCME
Andreja Marusic	Team Member	Private Sector Development	GMTBR
Eric Ranjeva	Team Member	Disbursement	WFACS
Aris Molfetas-Lygkiaris	Team Member	Private Sector Development	GMTBR
Aun Ali Rahman	Team Member	Financial Sector	GFCID
Caitlin Janelle Whittemore	Team Member	Quality Assurance	MNADE
Carlo Maria Rossotto	Team Member	ICT	GTD11
Colin Bruce	Peer Reviewer	Fragility, Conflict and Violence	GTFDR
David A. Phillips	Team Member	Operations	GFCSS
Goran Vranic	Team Member	Private Sector Development	GMTBR
Helen Z. Shahriari	Social Safeguards Specialist	Social Safeguards	GSU05
Jack Benjamin Randolph	Team Member	Private Sector Development	MNCA4

Jeremy Allan Bauman	Team Member	Angel Investment	GFCID
John R. Wille	Team Member	Private Sector Development	GMTBR
Natalia Robalino	Counsel	Legal	LEGIA
Natasha Kapil	Peer Reviewer	Private Sector Development	GFCPN
Numa F. De Magalhaes	Peer Reviewer	Private Sector Development	GMTBR
Samantha M. Constant	Team Member	Gender	GSU05
Sami Oday Khaldi	Team Member	Consultant	GFCMW
Sarah Keener	Team Member	Social Safeguards	GSU05
Serene Shalan	Team Member	Entrepreneurship Development	GFCME
Steve W. Wan Yan Lun	Team Member	Operations	GFCMW
Suha Salim Ayoub Rabah	Team Member	Project Assistance	MNCGZ
Victor Mulas	Team Member	Entrepreneurship and Human Capital Development	GFCFC
Yehia Khedr Eldozdar	Team Member	M&E	GFCID
Zeyad Abu-Hassanein	Environmental Safeguards Specialist	Environment	GEN05
Souad Hayel Reda Abdelhamid	Team Member	Human Capital Development	CASPP

Extended Team

Name	Title	Organization	Location

WEST BANK AND GAZA
INNOVATIVE PRIVATE SECTOR DEVELOPMENT

TABLE OF CONTENTS

I. STRATEGIC CONTEXT

A. Country Context

1. **Economic growth in the West Bank and Gaza (WB&G) slowed in 2017.** The economy has long suffered from restrictions on movement, access, and trade that have kept investment levels extremely low and resulted in an erosion of the productive base. Substantial amounts of financial assistance from the international community have helped mitigate the impact of the restrictions on growth through fueling public and private consumption. However, this growth model is not sustainable and aid cannot continue to substitute for a poor business environment. The latest data by the Palestine Central Bureau of Statistics (PCBS) indicates that real gross domestic product (GDP) growth in WB&G stood at 3 percent in 2017 compared to close to 5 percent in 2016.

2. **The declining economy in Gaza is at a critical juncture due to a severe liquidity squeeze arising from sharply reduced reconstruction aid flows and disrupted fiscal relations with the West Bank, in addition to continued economic isolation.** The Gaza economy is estimated to have contracted by 0.3 percent in 2017 compared to 8 percent growth in 2016. This is partly due to a severe drop in aid for reconstruction as inflows in 2017 amounted to about US$55 million compared to US$400 million in 2016.[1] As a result, the construction sector, which had been the main driver of Gaza's economy in recent years, did not make any contribution to growth in 2017. Also, consumption witnessed a strong drop in 2017 as wage payments to the employees of the de facto authority have almost ceased while some allowances to Palestinian Authority (PA) employees in the Gaza Strip have been suspended since mid-2017. This has resulted in a severe liquidity squeeze for about 80,000 families (almost one-quarter of Gazans), negatively affecting spending and hence economic activity.

3. **Meanwhile, the West Bank economy continued to grow in 2017.** Real GDP growth in the West Bank is estimated at 4 percent in 2017, which is slightly below its rate in the previous year. Growth was mainly concentrated in construction, wholesale and retail trade, services, and manufacturing. However, the agriculture sector continues to suffer from constraints on trade, movement, and access and contracted by 11 percent in 2017.

4. **The unemployment rate in WB&G has continued to be high, and labor force participation low, with structural problems of inclusion particularly for young people and women.** According to data from the PCBS labor force survey for 2017, unemployment reached 27.4 percent, which is 0.5 percentage point higher than in 2016. The rise was driven by an increase in Gaza where the rate stood at 43.6 percent in 2017, up from 41.7 percent in 2016. In the West Bank, unemployment remained almost constant at 18 percent. In 2017, only 41 percent of those between ages 15 and 29 were active in the labor market, reflecting high pessimism regarding employment prospects. Despite a low participation rate, unemployment among this category reached 40 percent. There are also dramatic differences in labor force participation by gender. Male participation rates reached 71 percent in 2017 while women have long been underrepresented in the Palestinian labor market, with recent participation rates of 19 percent.

[1] These figures are based on disbursements of pledges made at the 2014 Cairo Conference for Gaza Reconstruction.

5. **Private investment levels in the Palestinian economy have been low at about 15 percent of GDP in recent years**, far below most middle-income economies. Moreover, investment is concentrated in the less productive non-tradable sectors, including internal trade activities and residential constructions. Foreign direct investment inflows, which are positively correlated with productivity growth, have been only about 1 percent of GDP on average over the last decade. Raising domestic savings rates, broadening their base, and lengthening their term structure would support investment in the productive sectors of the economy. Over the past decade, Palestinian private savings have been on a declining path (the lowest in Middle East and North Africa during 2000–2014). Since 2009, private savings as a percentage of GDP has been mostly negative (recording −7.9 percent in 2014).

6. **Long-lasting Israeli restrictions on movement, access, and trade are important impediments to private sector activity and job generation in WB&G.** Restrictions on access to resources, particularly those in Area C, have severely constrained economic activity in the West Bank. The removal of Israeli restrictions on Area C could bring about additional cumulative growth for the West Bank economy equal to 33 percent by 2025. Restrictions on trade have severely limited export-led growth, critical for a small economy, and hence hampered development of the private sector. Most Palestinian imports and exports pass through Israeli ports and incur security delays that can increase costs by an average of US$538 per shipment. Relaxing the dual-use list (list of goods destined to the West Bank or Gaza that can have both civil and military uses) would bring about additional cumulative growth of 6 percent to the West Bank economy by 2025, with a bigger impact of about 11 percent in Gaza. Lifting the restrictions would open Gaza up for critical trade needed to rebuild its infrastructure and economy and could lead to additional cumulative growth in the range of 32 percent by 2025 for Gaza's economy. In total, the World Bank estimates that alleviating restrictions imposed by the Government of Israel (GoI) could raise real GDP by some 36 percent in the West Bank and 40 percent in Gaza by 2025.[2]

7. **A weak, albeit improving, domestic business climate is also a major obstacle for private sector activity and development.** Productive investments are inhibited by a patchwork regulatory climate which has been vulnerable to capture by vested interests. WB&G ranked 114 out of 190 economies in the 2018 Doing Business report—26 spots better than the 2017 ranking (140). Legal differences always existed between Gaza and the West Bank and have been exacerbated by different legislation enacted by the PA and Hamas since 2007, creating many internal inconsistencies. Given the severe land constraints, limited land registration, and unclear property rights even within Palestinian-controlled areas are a major challenge for urban/housing and business development. Currently, only 30 percent of land in the West Bank is registered with a clear title. Although access to finance is not seen as an impediment for large firms, it continues to be a challenge for early stage and informal firms. Small and medium enterprises (SMEs) also suffer from power cuts and costly backup arrangements to secure critical basic services, particularly in Gaza. The World Bank estimates that PA-led reforms could generate additional cumulative growth in the range of 24 percent in the West Bank by 2025 and even higher at 30 percent in Gaza due to a lower base effect.

8. **The workforce does not offer the skills that businesses demand, resulting in 60 percent unemployment for recent graduates.**[3] The needs of the labor market are not currently met by the education system. According to stakeholder consultations, universities in the West Bank and in Gaza do

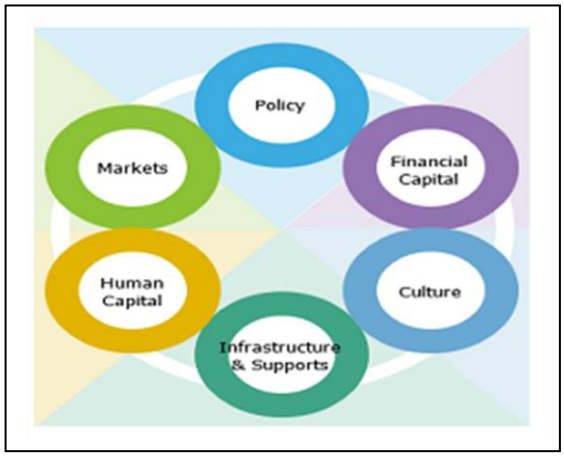
[2] For more details on these estimates, see http://documents.worldbank.org/curated/en/952571511351839375/Prospects-for-growth-and-jobs-in-the-Palestinian-economy-a-general-equilibrium-analysis.
[3] Recent graduates include from both university and secondary education.

not produce graduates well equipped with skills required by the private sector, and developing skills of the existing workforce is critical for increasing the productivity and competitiveness of businesses. Youth face serious employment challenges upon graduation from the education system. In the West Bank, the proportion of jobless male youth reaches 33 percent by age 23 (with 20 percent unemployed and 14 percent inactive). The situation is severe in Gaza where unemployment reaches 43 percent among male youth by age 26. Young educated women are disproportionately affected with approximately 71 percent of college-educated women between the ages of 19 and 24 unemployed.[4] Further, the female labor force participation is 19 percent, which is remarkably low even when compared to the Middle East and North Africa average of 21 percent in 2017, one of the lowest regional rates worldwide.[5] The slow education-to-work transition in the WB&G is symptomatic of the labor market that is characterized by the low absorptive capacity of the private sector and little access to job opportunities abroad. The gap between working-age male and female labor market participation rates over the last decade has widened and reached 54 percent in 2017.

B. Sectoral and Institutional Context

9. **Entrepreneurship culture is growing in the WB&G with the startup business ecosystem focused on information and communication technology (ICT).** Considering the movement and access issues existing in other sectors such as agriculture, early stage investors tend to focus more on digital entrepreneurs. The entrepreneurship ecosystem—that is the combination of culture, enabling policies, finance, human capital, product markets, and institutional support of startup businesses (see figure 1)—is developing and evolving with more youth choosing entrepreneurship as a career path—including youth who are founding startups themselves and who are becoming team members of startup businesses.[6] There are a few high-growth companies (for example, online accommodation booking website 'Yamsafer') that are demonstrating that this is a potential career path for youth. Further, many women are choosing the path of entrepreneurship. Women own close to 62,000 micro, small, and medium enterprises (MSMEs)—approximately a quarter of all enterprises—in WB&G.[7] Along with culture, this section identifies the domains of the entrepreneurship ecosystem, with a focus on the binding constraints. For a more exhaustive review of the attributes of each domain, see Figure 2.

Figure 1. Domains of the Entrepreneurship Ecosystem



Source: Daniel Isenberg, Babson College.

[4] For more details, see Report on WB&G - Identifying Opportunities and Constraints for Female Employment Study (P160288).
[5] World Bank FY18–20 Country Gender Action Plan (CGAP) for the West Bank and Gaza (data from 2016 World Development Indicator).
[6] Based on stakeholder consultations.
[7] Second Country Gender Action Plan for WB&G (CGAP II), February 2018; IFC Annual Report 2016, Experience Matters; IFC Press Release, April 6, 2016.

10. **Startups in the WB&G are supported by several incubators and accelerators—although the capacity and scope of these institutions are limited.** There are about 20 such institutions, some located in WB&G and some abroad, that have incubated/accelerated Palestinian startups—a large number for the small size and limited maturity of the ecosystem. This is driven by (a) most of the domestic incubators and accelerators being supported by donor funding, which can skew the market rules of demand and supply, and (b) the ecosystem having a large presence of international accelerators. There is a consensus that many of these incubators and accelerators provide modest quality support to entrepreneurs. A draft report of recent surveys of ecosystem actors in the WB&G found that Palestinian incubators and accelerators seem unable to meaningfully support the ecosystem. This is likely because the domestic incubators and accelerators are offering low quality (a) services, (b) capacity, and (c) network connections.[8]

11. **The quality of human capital in the entrepreneurship ecosystem is low—including the skill sets of entrepreneurs and those of the information technology (IT) professionals playing key support roles.** Based on numerous conversations and surveys with stakeholders in the ecosystem, there is a consensus of an overall lack of quality in entrepreneurs and startups stemming from low-quality output of university graduates. A large quality gap emerges between those with experience and those without, and brain drain is a considerable issue, given the limited opportunities combined with the political environment. The remaining would-be entrepreneurs do not have practical experience in business plan writing and deal making, and they do not have access to experienced mentors that can help. While many entrepreneurs and startups exist, and operate in the WB&G, a large majority of these startups are not yet investable. These startups do not meet investor needs due to their inability to scale because they often have difficulty finding good talent to hire at the growth stage of their companies, among other obstacles. This lack of talent includes young IT professionals, who are lacking in both technical programming skills and soft skills. This mismatch of supply of relevant labor skills versus market demand is currently being addressed through the Finance for Jobs (F4J) Series of Projects (SOP) which have introduced Development Impact Bonds to encourage the development of employable skills.

12. **Financing is available in the ecosystem, but it is not widespread, and the lack of early-stage financing contributes to a weak pipeline of deal flow.** As identified in the World Bank's ongoing Finance for Jobs (F4J) Series of Projects (SOP), there is organized funding at each of the key stages of the entrepreneurship life cycle from at least one source, but often from only one source. Angel investment is not organized and remains largely inaccessible to startups at the seed/early stage. While there has been an increase in equity financing available to startups at the early growth and growth capital stages in the WB&G, financiers often report weak demand and dry investment pipelines. Further, despite a number of female-led MSMEs, more than 60 percent of them lack or have limited access to finance and, hence, a majority are informal.[9] Additionally, the dearth of viable ideas and inability of entrepreneurs entering the ecosystem to survive to later stages of the firm life cycle have consequently led to a lost opportunity, as some venture capital (VC) and private equity (PE) funds in this area are not being deployed. One VC fund (Sadara) and another PE fund (Abraj Capital) have withdrawn from the market.

13. **Palestinian entrepreneurs have limited access to markets for products.** The domestic Palestinian market is small, fragmented, and insulated. Typically, businesses operating in the WB&G are lifestyle

[8] Mulas, Victor; Qian, Kathy; Garza, Jade; & Henry, Scott. *Tech Startup Ecosystem in West Bank and Gaza*.
[9] CGAP II, February 2018; IFC Press Release, April 6, 2016: IFC, "Bank of Palestine Support Women Entrepreneurs in West Bank and Gaza."

businesses with limited options to scale. Many factors limit businesses from expanding beyond the domestic Palestinian market including the social and political climate, poor networks and linkages within accelerators and funds, and the perception that Palestinian products are of lower standards. Access to Israeli and international markets is largely dependent on the political situation. From Gaza, access to markets is especially poor as the Governments of Egypt and Israel have maintained severe restrictions on trade. However, for the technology sector and trade-exposed business services, physical restriction is less of an obstacle because the nature of the goods and services provided allows free exchange electronically.

14. **Restrictions to movement can be especially challenging for female entrepreneurs.** Mobility constraints can lead to gender-based consequences, exasperating an already difficult situation for women, including female entrepreneurs. For example, women face additional safety and security concerns during travel or commuting to work over and beyond what is imposed by traditional attitudes and cultural norms around women's mobility. This often results in many women choosing to work from home (or close to home) or not at all.[10]

15. **The Palestinian regulatory environment and legal framework for business entry are complicated and outdated, creating unnecessary obstacles for entrepreneurs. Many entrepreneurs are choosing to register outside the WB&G —or not at all.** According to local entrepreneurs, the process of registering a business in the WB&G is complicated, lengthy, and unclear. There is no automated business registration system and lawyers provide inconsistent information to entrepreneurs. Registration categories are confusing and entrepreneurs often register their businesses under incorrect categories or choose to register in foreign countries. Many businesses in the WB&G operate informally, sometimes as home-based businesses (HBBs). These home-based entrepreneurs—many of whom are women who do not have the opportunity to work outside the home—encounter significant regulatory barriers to formalization. Their inability to formalize transactions limits their size and growth and may not allow them to have a bank account, physical address, or the ability to invoice their clients.

16. In summary, the key ecosystem failures that this operation is planning to address are as follows:

(a) **Capabilities failure.** Lack of business knowledge and experience upon entry implies difficulties for entrepreneurs to make informed decisions about market demand, sources of finance, or business models for early-stage enterprises.

(b) **Information asymmetry.** For the private investor, there is a lack of motivation to fund early-stage ventures given that it is hard to conduct project appraisal and due diligence without reference benchmarks and access to a previous track record of investees. At the same time, entrepreneurs also lack motivation to share the details of their projects for fear of disclosing proprietary knowledge. Asymmetries are also faced by first-time entrepreneurs who have not built businesses before, have limited market or commercialization knowledge and face significant search costs in addressing these on their own, or do not know how to approach or pitch to investors and thus may undervalue these services or not know how to optimize their procurement.

[10] CGAP II, February 2018.

(c) **Externalities and spillovers.** Despite the positive externalities of innovation to society, the private VC supply is likely suboptimal given its high risk and specialized model. It is believed that the social rate of return to financing entrepreneurial startup high-tech firms is greater than the private rate of return.[11] For networking establishment and support, there are extensive potential positive spillovers that may address the various information asymmetries that are discussed earlier; however, these will not accrue to individuals who seek to build or support networks.

(d) **Coordination failure.** Part of the fragmented nature of risk capital market is caused by the lack of communication among business angels looking for investment opportunities without compromising their invisibility. As such, groups of angel investors stimulate the supply of finance by alleviating informational deficiencies. Networking coordination failures mainly occur when the coordination role is played by a single network member that does not carry the capacity or resources to run collaborative networks. Collaboration itself that may benefit multiple parties can be hindered by the lack of brokering mechanisms.

[11] Cumming, Douglas J., and Sofia A. Johan. 2014. "Venture Capital and Private Equity Contracting: An International Perspective."

Figure 2. Analysis of the Palestinian Entrepreneurship Ecosystem

Venture Friendly Markets for Products

+

1. Potential access to MENA markets
2. Palestinian export association
3. Potential access to western markets via diaspora network
4. Global recognition in goods (e.g., stone marble, food, soap, pharmaceuticals)

−

1. Small local market
2. Uncontrollable borders and regulation
3. Limited movement of goods and people
4. Difficulty in the movement of money
5. Low GDP/capita causing low adoption rates
6. Lack of telecom infrastructure

Institutional and Infrastructure Supports

+

1. Government appetite to invest in Startups
2. Approval of electronic payment law
3. New company law under development

−

1. Lack of 3G connectivity on Palestinian networks
2. Transport issues due to transport segregation
3. Difficulty in import and export
4. Lack of initiatives for the unbanked population (30%-40%)

Availability of Funding and Finance

+

1. Flexibility for informal businesses
2. Availability of funding for multiple sectors
3. Programs for women entrepreneurs
4. Multiple equity investors available at multiple stages
5. Government interest to invest in early-stage business
6. Large diaspora population with appetite to support local startups

−

1. High interest rate on debt financing
2. High equity stake requirements on early stage investments
3. Debt and equity financing not accessible to all entrepreneurs
4. Lack of BDS follow up as part of financing options
5. Most financing activities including donor money is available to ICT startups
6. Lack of synergy between financing parties
7. Unstructured relations between startups and angels

Enabling Policies and Leadership

+

1. Recent approval of electronic payment law
2. New companies law under development
3. Available tax initiatives for FDIs

−

1. High and inconsistent cost of business setup and registration
2. 44-55 days for complete business registration
3. Lack of online or offline OSS for company registration
4. Wide spread of informal business
5. Lack of e-payment infrastructure and regulation
6. Lack of regulation on new company structures, bankruptcy laws

Quality Human Capital

+

1. 4000+ annual graduates from STEM
2. Introduction to entrepreneurship at high school level
3. High traditional entrepreneurship activity
4. High unemployment rate of 27%
5. Unskilled labor with access to employment in Israel
6. Low wages for high skilled individuals

−

1. Outdated education curriculums
2. Lack of opportunity for STEM graduates
3. Brain drain (due to lack of employment opportunities)
4. Lack of R&D related initiatives
5. Lack of up-to-date technology
6. Gap between market needs and skills

Conducive Culture

+

1. Success stories:
*Harri.com
*Freightos
*Yamsafer
*Mashvisor
*RedCrow
2. Good social status of entrepreneurs
3. Excitement towards startups from donors

−

1. Failure not widely accepted
2. No successful exits or acquisitions
3. Lack of innovation
4. Lack of research and development initiatives

Source: Stakeholder consultations from World Bank scoping mission in July 2017.

C. Higher Level Objectives to which the Project Contributes

17. **This operation is well aligned to the World Bank Group's FY18–21 Assistance Strategy (AS) for the WB&G,** as discussed by the Board of Executive Directors on December 5, 2017 (Report No. 115201-GZ) which has the overarching objective to create conditions that incentivize the private sector and simultaneously mitigate the risks faced while investing in a fragile and uncertain environment. This operation is also well aligned with the World Bank Group's strategic goals to end extreme poverty and boost shared prosperity in a sustainable manner. This AS reflects a shift toward prioritizing innovative private sector-focused interventions with the Palestinians. Following the new AS, a Private Sector Enhancement Facility (PSEF) is being established to channel World Bank Group and donor partner resources toward mobilizing private capital investment into key pilot projects that may improve the Palestinian investment climate through a demonstration effect. In a similar rationale, the Innovative Private Sector Development (IPSD) project—which is directly linked to the AS focal pillar, *setting the conditions for increased private sector investments and job creation*—will support reforms to create an environment where private sector investment and jobs can grow. This operation's components are each aligned to one of the AS pillar's areas of engagement: (a) increased ties to regional markets, (b) building skills for the private sector's labor market needs, and (c) business environment reform—an engagement area that is also being addressed through the US$30 million Fiscal Stability and Business Environment Development Policy Grant (P161252).

18. **Additionally, this operation is in line with the Palestinian National Policy Agenda (2017–2022) and its focus on improving Palestinian human capital.** As the AS indicates the importance of implementing World Bank assistance through multiple channels, this operation will work with nongovernmental organizations (NGOs) and private sector actors as well as with the PA.

19. **This operation implements the World Bank Group Maximizing Finance for Development (MFD) agenda, which is prioritized in the new AS as a key component of the WB&G program's intervention logic**. Like the forthcoming PSEF, the IPSD seeks to operationalize the MFD agenda by helping WB&G to maximize "development resources by drawing on private financing and sustainable private sector solutions to provide value for money and meet the highest environmental, social, and fiscal responsibility standards, and reserve scarce public financing for those areas where private sector engagement is not optimal or available".[12] In WB&G, fragmentation and uncertainty affects the entrepreneurship ecosystem, crowding out investment finance and complicating entrepreneurs' access to key resources that would be available in an advanced ecosystem. According to the World Bank's 2014 WB&G Investment Climate Assessment, "political instability, the result of the unresolved conflict and the restrictions on movement and access, remains the binding constraint in the Palestinian investment climate, resulting in uncertainty, risk, increased costs for businesses and investors, and the fragmentation of Palestinian economic space and markets." In order to kindle private sector development through startup businesses, this operation will use public funding to support the mobilization of private investment. Through multiple interventions, the IPSD will support cultivation of early-stage investment finance and improved access for entrepreneurs to finance, markets, technology, mentorship, support systems, and business opportunities from inside and outside the WB&G. This operation will draw in both domestic and foreign investment, including from regional and diaspora ecosystems.

[12] Maximizing Finance for Development <https://worldbankgroup.sharepoint.com/sites/MFD/>

20. **The IPSD operation is aligned with two pillars of the Middle East and North Africa Regional Strategy: renewing the social contract and regional cooperation.** Toward renewing the social contract, this operation will support the improvement of entrepreneurship resources and economic opportunities available to Palestinians—especially for women and youth of the ICT sector—the sector with the best opportunity for growth. Through top-down support on policy and framework building combined with bottom-up support on skill development and pilot initiatives, binding constraints will be addressed to attract private capital and foster sustainable private sector growth. The pillar of regional cooperation has been difficult to address in the WB&G, considering the access and movement restrictions on Palestinians. Through the IPSD, the World Bank will help to foster the market linkages with regional entrepreneurship ecosystems that are difficult to establish and maintain under the current restrictions. Under the strategic direction of the new AS, the IPSD will provide a platform for the World Bank to support technical engagement between the Palestinians in the WB&G and Arab communities in regional ecosystems. While cooperation among these parties currently exists on an ad hoc basis, entrepreneurs believe that great potential for cooperation could be realized with a more systematic approach. By supporting Palestinian partnerships with counterparts in regional communities, Palestinian entrepreneurs in the WB&G can access key resources to improve their economic opportunities.

21. **Aligned with the AS and the FY18–21 Country Gender Action Plan (CGAP II) for the WB&G, the IPSD will improve the opportunities for female entrepreneurs and IT professionals.** The AS identifies entrepreneurship as a key area to support female leadership and economic opportunities, especially for youth. The AS uses the example of Gaza Sky Geeks (GSG)—an accelerator that the World Bank has deemed the most connected actor in the Gaza cluster of the startup ecosystem—which focuses on the development of IT skills for women and female-founded startups (50 percent of mentored founders at GSG are women and they are targeting 80 percent to be women).[13] CGAP II, which has outlined concrete steps for increasing female labor force participation, provides key guidance for this operation in leveling the economic playing field between women and men. To achieve such concrete results, this operation has gone beyond mainstreaming gender-linked inputs, creating targeted interventions to combat constraints on economic opportunity for women and youth. The project will measure outcomes for women through gender-disaggregated indicators.

22. **Citizen engagement and beneficiary feedback.** The operation's beneficiaries include young entrepreneurs, many of them female, HBB owners, and those involved in the digital economy. For the project to achieve its objectives, the quality of services provided by various contractors (mentoring, building skills for the private sector's labor market needs, connection to other markets/market access services, improved business entry services, and so on) needs to be high and perceived to be of value to recipients. Accordingly, routine feedback on these services by various contractors will be carried out. This feedback could be in the form of a survey and/or an application for feedback which will take place on a yearly basis once the services will be available (estimated to be available starting year 3 of the program). Beneficiary feedback on the program interventions will be an important element in overall project supervision and will provide space to adjust the program based on feedback received. The improvements in business registration will involve a new user-friendly web interface, as well as a shift in the culture and incentives of the unit approving registration toward providing an efficient and client-centered service. The operation will not only integrate feedback mechanisms on the user experience with registration but will also pilot mechanisms to recognize such improvements (that is, possible options can include public

[13] World Bank FY18–21 Assistance Strategy for the West Bank and Gaza.

recognition for changes before/after, scorecards). Beneficiary feedback will be discussed with the Project Implementation Agency (PIA) and the Ministry of National Economy (MONE) and would then be reflected in annual supervision reports, and feed into any needed adjustments in implementation of the program.

Box 1. Entrepreneurship Glossary

Accelerators support entrepreneurs and startups in early stages of development and they often comprise the following features: (a) a highly competitive and open application process for entrepreneurs, (b) provision of small amounts of seed investment, (c) focus on small teams rather than individual founders, (d) intensive support for a limited period of time (usually 3–6 months) with active mentorship and networking, and (e) collaborative work among startups through cohort or classes of startups.

Angel investor is one who invests in ventures (primarily at an early stage) in a personal capacity (that is, investing personal money) and may or may not have an active advisory or guidance role for the founders in the venture.

Digital economy is a term for all of those economic processes, transactions, interactions, and activities that are based on digital technologies. As such, it potentially involves all firms and sectors using these technologies, although it often focusses on web-based or web-enabled business models.

Entrepreneurship ecosystem is the combination of startups (at various stages), investors, support institutions (for example, accelerators and incubators), universities, and other stakeholders that support or connect to startups, interacting in multiple dimensions to create and scale new ventures.

Exit (startup exit) refers to the point at which founders or early-stage investors sell their stakes in the venture, generally either in a private acquisition or public offering. This report refers more widely to 'startup exit' as the point at which a startup is sustainable or it has received sufficient funding.

Incubators are spaces that support startups by providing an office space and administrative support services. The most typical services are legal, recruiting, IT, accounting, public relations, and pooled buying programs.

Mentor is an experienced person who can provide advice, knowledge, or connections to a startup founder. Mentors usually have strong business acumen and practical experience through former entrepreneurship experience or industry knowledge.

Scaleup (firm) is—according to the Organisation of Economic Co-operation and Development—a company that is considered to be in growth stage and has an average annualized return of at least 20 percent in the past three years with at least 10 employees at the beginning of the period.

Startup is a newly established business venture that is in the first stages of operation.

Venture Capitalist (VC) is an institutional investor that provides financing to startups and small early-stage firms. Usually VCs look for high-growth potential firms to exit the investment in the short term.

Youth is defined by the United Nations (UN)—for statistical consistency across regions—as people between the ages of 15 and 24. All UN statistics on youth are based on this definition, as illustrated by the annual yearbooks of statistics published by the UN system on demography, education, employment, and health.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

23. To improve economic opportunities[14] for individuals and firms in the West Bank and Gaza.

[14] Economic opportunities include access to the following resources: (a) early-stage finance, (b) market access activities, (c) mentorship, (d) skills enhancement training, (e) employment matchmaking, and (f) streamlined formal business registration.

B. Project Beneficiaries

24. The beneficiaries are (a) individuals (including females) and (b) firms (including female owned).

(a) Individuals are (i) entrepreneurs[15] from the WB&G and (ii) IT professionals in Gaza—many of whom are young, recent graduates (both from secondary and tertiary education)—who do not have the industry-demanded skills.

(b) Firms include startups, HBBs, and MSMEs.

C. PDO-Level Results Indicators

25. The PDO-level indicators are the following:

(a) Beneficiary individuals of improved economic opportunities (number, % female)

(b) Beneficiary firms of improved economic opportunities (number, % female-owned)

(c) Private investment raised by beneficiary firms (USD)[16]

III. PROJECT DESCRIPTION

A. Project Components

26. **This intervention will alleviate market failures related to gaps and binding constraints in the entrepreneurship ecosystem of the digital economy[17] including in human capital, finance, product markets, enabling policies, institutional support, and connectivity.**[18] This is an area of global growth, utilizing the development and utilization of digital platform technologies, including in the automation of business registration. It is skill and education intensive, but less capital intensive than others, and is less likely to be affected by the unique physical challenges of trade-exposed economic activity within the WB&G. It leverages regional communities to access advanced technologies, both as a potential market for Palestinian intermediate digital outputs (for example, coding, testing services) and as inputs to build the Palestinian entrepreneurial ecosystem (through mentoring, market connections, angel investment, and so on).

27. The IPSD operation will bridge the gaps in the entrepreneurship ecosystem domains by addressing different but complementary areas of the support ecosystem. The components and activities of the project are:

[15] Entrepreneurs include sole proprietors and sole proprietor HBBs.
[16] Includes committed amounts.
[17] The digital economy is a term for all of those economic processes, transactions, interactions, and activities that are based on digital technologies. As such, it potentially involves all firms and sectors using these technologies, although it often focuses on web-based or web-enabled business models.
[18] Connectivity refers to the strength of the network for entrepreneurship stakeholders across and within various clusters of the ecosystem (for example, the West Bank, Gaza, the Arab communities in the Middle East and North Africa region, diaspora Palestinians in the United States, European Union, and United Kingdom)

(a) **Component 1: Entrepreneurship Ecosystem Development, including the following:**

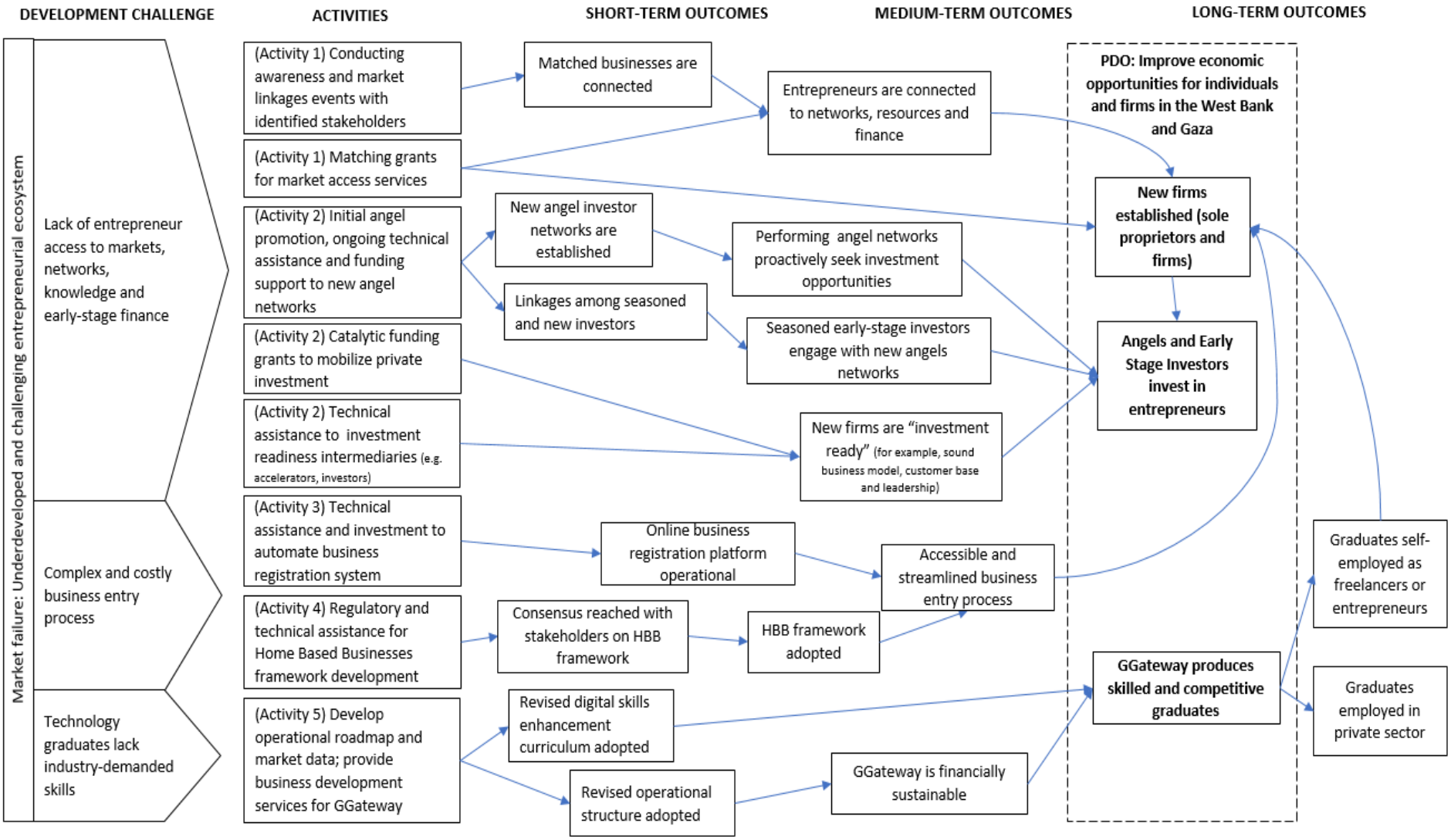
- Activity 1: Improving market linkages to Arab communities in regional entrepreneurship ecosystems—connectivity and access to markets.
- Activity 2: Developing a dynamic startup finance ecosystem with a core focus on organized angel investing—financial infrastructure.
- Activity 3: New automated company registration system—technology infrastructure and integration.
- Activity 4: Developing home-based businesses framework—technology infrastructure and regulatory policy.

(b) **Component 2: Building an Outsourcing Hub in Gaza, including the following:**

- Activity 5: Developing the outsourcing model and piloting expansion of an existing organization in Gaza—human capital and markets.

(c) **Component 3: Project Management.**

Figure 3. IPSD Theory of Change



Building on existing streams of work in concept design

28. **Many of the proposed activities under the IPSD are supported by the findings of the analytical work recently produced under the World Bank's F4J SOP** and the ongoing efforts to improve the Palestinian investment climate under the Business Environment technical assistance (TA) and as a prior action on the past Development Policy Grant. On the broader business environment, the World Bank and International Finance Corporation (IFC) have in recent years supported the PA MONE to implement priority reforms, for example, the secured lending regulatory framework and the setting-up of the moveable asset registry.

29. **The IPSD will complement and expand on F4J,** which tests multiple financing instruments, largely targeting job creation and social return, such as development impact bonds and an investment co-financing facility primarily aimed at larger-scale activities than the IPSD, such as industrial, agriculture, tourism, ICT, and energy projects (for example, a solar panel installation in Gaza). F4J also includes an extension of entrepreneurship ecosystem matching grants to participating Palestinian early-stage investment funds to support the delivery of business development services for entrepreneurs in the pipelines of these funds. The IPSD will build on these efforts by providing a complementary set of interventions to strengthen the start-up finance ecosystem in WB&G by: (a) supporting the local angel investment networks; (b) facilitating and strengthening linkages between regional early-stage investors, local angel investors, and entrepreneurs; and (c) strengthening the capability of investment-readiness service providers in WB&G. The proposed catalytic funding grants under IPSD will offer funding opportunities to a broader set of entrepreneurs from those targeted under F4J and allowing for a broader use of funds (including operating, product/business building, and go-to-market costs) that improve investment-readiness and stimulate co-investment from business angels and other early-stage investors.

30. **The IPSD will also build on the IFC Startup Catalyst's Middle East and North Africa activities.** Startup Catalyst is a facility that invests in commercially oriented incubators, accelerators, and seed funds, and which invested in Ibtikar, a Palestinian seed-stage venture fund. Through investment readiness advisory services, catalytic funding, and the mobilization of angel investors, the IPSD would contribute to investment pipeline building and the formation of complementary co-investment angel investor capital sources for seed and VC investors such as Ibtikar.

31. **The project activities, especially supporting an outsourcing hub in Gaza, align well with the Education Global Practice (GP) plans to support skills enhancement and employability.** The Education GP team in the WB&G supports the project approach, the selection of the pilot organization, and the proposed activities. The project will coordinate with the Education GP during the implementation of activities to ensure complementarity and benefit the wider ecosystem in the Gaza Strip.

Component 1. Entrepreneurship Ecosystem Development (US$8.4 million)

Activity 1: Improving market linkages to Arab communities in regional entrepreneurship ecosystems (US$2.5 million)

32. **Rationale for building market linkages.** There is a strong correlation between successful startups and their connectedness to the ecosystem, measured by centrality in social network analysis. Startup success is affected by connectivity—that is, the access of the startup to other stakeholders in the ecosystem (for example, accelerators, mentors, funders, and universities). According to a recent World

Bank report produced as part of the F4J SOP, "higher density and more clusters allow entrepreneurs to connect to knowledge and resources through other actors in the ecosystem. The less dense the ecosystem is, the more difficult it is for a founder to find their way to mentors, investors or other relevant knowledge or resources required for their venture. The additional separation of clusters in WB&G increases this difficulty." This draft report on the Palestinian tech startup ecosystem gives the most significant factors for the success of Palestinian entrepreneurs in both the short- and long-term context—both of which are keys to the rationale of the linkage activity. For raising funding initially (that is, short-term success), 'the most significant factor' is the interconnectedness of the founders to other ecosystem stakeholders. For hiring more and more employees over time (that is, long-term success), having international investors is the most significant factor. The report found that startups with foreign investors were twice as likely to hire employees.[19]

33. **Rationale for Arab communities in regional ecosystems.** The fragmented nature of WB&G limits access between different sectors of society, and this significantly affects the connectedness of the Palestinian entrepreneurship ecosystem. Palestinians are split between those living in the West Bank, Gaza, and the diaspora. Unlike Palestinians in the WB&G, Arab communities in regional ecosystems have access to advanced markets, as well as more freedom of movement. For entrepreneurs and the existing and potential entrepreneurial workforce in the West Bank, there would be benefits from linkages with regional ecosystems—for their IT education, mentoring, subject-matter experts, and potentially founding partners who have greater mobility for traveling in the region and internationally.

34. **Rationale for proximate regional ecosystems to cooperate with Palestinians in the WB&G.** The ecosystem of digital entrepreneurs in the wider region has recently emerged. The number of startups is on the rise and the support from the public sector and other technical/academic institutions has catalyzed many professionals to join the digital economy. Geographic proximity, similar cultural background, and societal ties/interests bring a valuable opportunity for Palestinian entrepreneurs to benefit from the technology transfer and access to regional ecosystems. Moreover, the stream of entrepreneurial initiatives and activities in the West Bank has made access to funding easier than in the developed diaspora markets. It is a win-win opportunity that would give Arab entrepreneurs in regional ecosystems an affordable access to talent in the WB&G. The competitive landscape for access to capital inflow and the cost of software development is often much higher in the proximate Arab communities than it is in the WB&G —creating an opportunity for these proximate communities to (a) create a business development center in the WB&G and (b) outsource to Palestinian men and women.[20]

35. **This activity is high risk/high reward in nature.** While a partial focus on the ICT sector mitigates some of the risks associated with the fragmentation of the Palestinian entrepreneurship ecosystem—and its interconnectedness with regional ecosystems—high risks remain. The restrictions on movement and access imposed on WB&G, including potential legal and regulatory constraints to establish foreign or joint businesses in the WB&G, could affect the access to market for entrepreneurs and investors. The high rewards associated with the connectedness of investors and entrepreneurs could bring in an exponential effect in building win-win partnerships and growing businesses.

[19] Mulas, Victor; Qian, Kathy; Garza, Jade; & Henry, Scott. *Tech Startup Ecosystem in West Bank and Gaza*.
[20] Based on conversations with stakeholders in the Arab communities of the region.

36. **Linkage scenarios with entrepreneurs and startups from regional ecosystems include the following:**

(a) Palestinian entrepreneur partners with a regional entrepreneur to establish a new company in the West Bank. This will provide the regional entrepreneur access to capital in the West Bank while providing the Palestinian entrepreneur better access to applied technology and software development expertise. Special attention will be given to match female and male entrepreneurs with same gender counterparts, when needed, to ensure that gender-based lessons are transferred in a way that will resonate/have greatest effect.

(b) Regional entrepreneur builds a development center or back office in the WB&G.

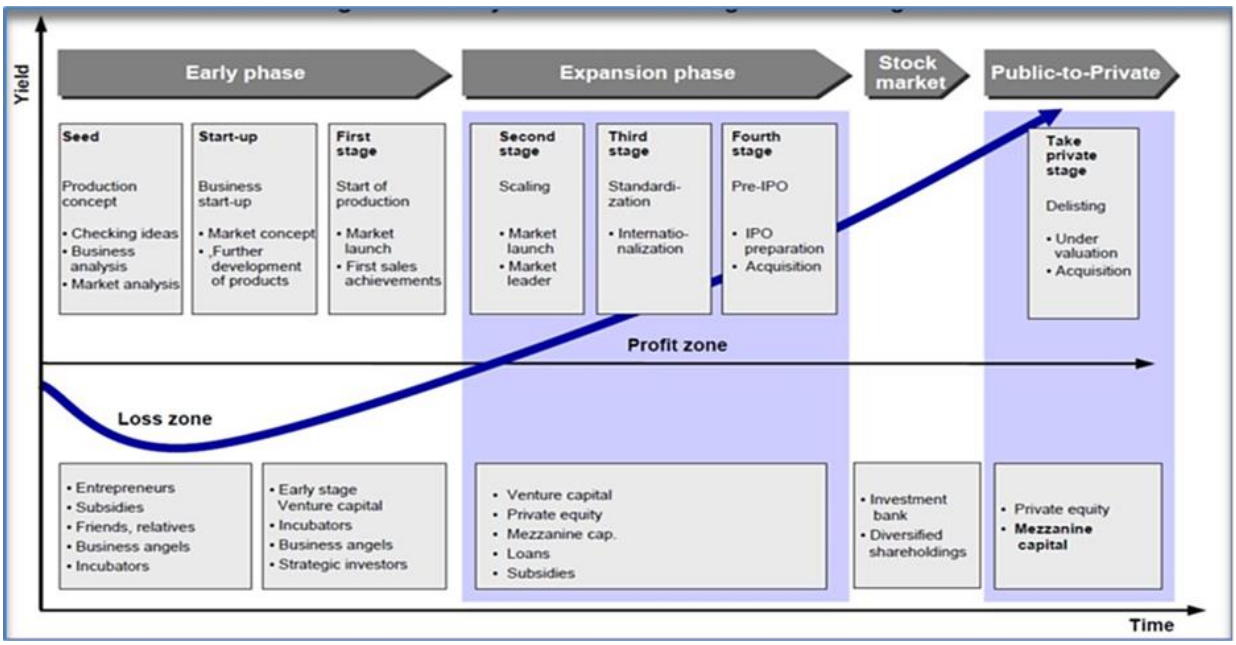
37. **Intervention.** The World Bank will support the improvement of Palestinian business linkages to more advanced regional ecosystems. This will include a sequenced approach consisting of (a) organizing and running awareness-building events to raise the awareness about the Palestinian market, potential investments, value chain (supply) needs, and linkage opportunities; (b) collecting and developing a database of beneficiaries to identify linkage opportunities based on the crossmatch of available opportunities and relevant entrepreneurs' capabilities; (c) organizing B2B networking events to facilitate the development of linkage opportunities between investors and entrepreneurs; and (d) providing market access services[21] to Palestinian entrepreneurs to support the implementation of linkage opportunities, which were identified by the B2B events. The beneficiaries of this intervention will be Palestinian companies registered in the West Bank or Gaza with plans to expand in new markets. The implementation pace of this intervention will start at a low level to ensure that alliances are formed among stakeholders and proper intervention instruments are being deployed.

Activity 2: Developing a dynamic startup finance ecosystem with a core focus on organized angel investing (US$2.95 million)

38. **Business angel investing has the potential to emerge as an effective form of capital to bridge the equity gap for Palestinian early-stage enterprises and could play a foundational role in the broader entrepreneurial financing ecosystem.** Angel investing involves high net worth individuals (HNWIs), typically successful entrepreneurs, industrialists, corporate/business executives, and investors investing their own capital into startup and early-stage businesses. Angel investors play a key role in bridging the 'equity gap' between the entrepreneurs' financial resources (their own funds plus those of friends and family) and growth financing from venture capitalists, private equity (PE), or debt finance and often provide non-capital strategic value to entrepreneurs.

[21] Market access services aim to enable firms to access new export markets or target new market segments in current markets. That would be achieved by providing marketing, production, and capability enhancement services.

Figure 4. Entrepreneurship Life Cycle



Source: Organisation for Economic Co-operation and Development (OECD).
Note: IPO = Initial public offering.

39. **Locally, there are a few 'informal' angels making investments, but these actors largely operate independently.** In developed markets—and increasingly in emerging markets—angels often operate within groups to benefit from the collective wisdom of other experienced professionals and to share the workload. In the WB&G, angels have not coordinated into formal groups, making them less effective and difficult for entrepreneurs to access. Successful angel investment groups (that is, manager-led groups and funds) require efficient operating structures, practiced due diligence processes, and reliable investment methodologies.

40. **There is a strong need to address knowledge deficiencies in startup investing/fundraising on both the supply and demand sides.** High Net Worth Individuals (HNWIs) in the West Bank who largely come from non-digital/technology backgrounds have a general risk-averse mentality and are unfamiliar with startup investment structures and strategies (though regional ecosystems and diaspora could represent an attractive pool of more technical angels). On the demand side, obstacles include equity aversion, lack of investment readiness, and poor investor engagement skills among Palestinian entrepreneurs. Intermediaries such as incubators, accelerators, and advisers largely lack capital-raising experience and the know-how to prepare entrepreneurs to engage investors. The region does not have a systematic mechanism to source and prepare promising startups for investment and connect them with prospective investors.

41. **To address these market failures, this activity will include three interventions: (**a) angel investor group building, (b) investment readiness advisory, and (c) catalytic funding.

42. **Initiative 1: Angel group/network building.** The project will promote and support the development of new angel groups/networks in the WB&G while potentially linking in regional ecosystems

and Palestinian diaspora. Initial tactics will target identifying and cultivating potential angel investing 'champions' (lead HNWIs) and group managers who can serve as anchors for developing new angel groups and will include providing operational support to sustain activity.

43. **Initiative 2: Investment readiness advisory services.** To assist in strengthening deal flow, the project will work with intermediaries such as incubators, accelerators, and advisory firms to address entrepreneur investment readiness and investor engagement deficiencies and to develop investment facilitation strategies. The activity would prioritize building the capacity of high-performing intermediaries to deliver improved capital-raising services to their clients. Capacity-building instruments would include training, workshops, TA, and exposure to global practices in angel investment.

44. **Initiative 3: Catalytic funding.** Through a facility managed by the PIA, investment catalytic funding grants will be provided to startup and early-stage enterprises that help stimulate private investment by first-time angels and encourage investment syndication between seasoned and less-experienced investors. The core success metric of the grants will be whether they result in private investment while also providing funding that enables entrepreneurs to develop and grow their business. Two instruments will be used.

(a) Pre-investment grants will involve grant funding to enterprises that show business and investment promise but are still not considered 'investment ready' by investors. The purpose of these grants will be to provide funding for entrepreneurs to address shortcomings identified by investors and to improve the likelihood that companies can subsequently secure angel (or other relevant) investment within a short time frame (targeting 3–6 months). Pre-investment grants will be available in the amount up to a maximum of US$ 30,000.

(b) Co-investment grants will provide supplementary funding to enterprises that are able to raise investment from angels and other approved investors. The purpose of these grants will be to provide additional funding—beyond what investors are willing to make—to help early-stage enterprises develop and grow. The grants may also help lower the risk perception of investors by better capitalizing the enterprises, thereby providing a longer 'runway' to achieve business development milestones that lead to stronger businesses. In addition, supplemental grant funding could encourage investors to spread capital across more investments (portfolio strategy), thereby leading to more entrepreneurs receiving the benefits of angel investors as partners. The co-investment grant disbursement would be made only after the enterprise has received a capital investment from an approved investor, and the entrepreneur will need to secure a minimum of two-thirds (67 percent) of the capital from investors, with the IPSD contributing up to one-third (33 percent) of the funding up to a maximum grant of US$ 100,000 per enterprise.

Activity 3: New automated company registration system (US$2.45 million)

45. **The process of registering a new business and formally starting operations in the WB&G is complex and costly.** According to the 2018 Doing Business report, the ease of 'starting a business' in the WB&G is currently ranked 169 globally (out of 190 economies), putting it in the world's 25 most difficult places to start a business due to regulatory and procedural complexity. Local entrepreneurs in the WB&G have confirmed that it is very difficult to start up and operate small and medium-size companies, due to

the bureaucratic barriers that they immediately face. Entry barriers constitute one of the early constraints that aspiring entrepreneurs encounter while attempting to access the formal economy. While the latest census of businesses identified about 160,000 establishments, there are only about 28,000 registered companies in the West Bank and approximately 9,000 active companies in Gaza (many more inactive companies in the register). The number of registered sole proprietors is even lower, with only 25,000 registered in the West Bank, further illustrating the challenges and limited incentives to formalization (normally the number of sole proprietors is many times the number of registered companies).

46. **Where the rules and processes are excessively burdensome, resource-constrained Palestinian entrepreneurs do not have the opportunity to turn their ideas into a registered business, missing out on the advantages that come along with formalization.** Among those advantages, Palestinian registered companies can benefit from legal and financial services provided by courts and commercial banks, services not available to most of the unregistered entrepreneurs. Formal Palestinian employees benefit from social security protections.

47. **Intervention logic.** Globally, the World Bank Group has supported more than 50 similar business entry reforms. A growing body of empirical research has explored the links between business entry regulation and social and economic outcomes. Where formal entrepreneurship is higher, job creation and economic growth also tend to be higher.[22] Evidence suggests that regulatory reforms making it easier to start a formal business are associated with increases in the number of newly registered firms and with higher levels of employment and productivity. Conversely, excessively cumbersome regulation of business startup is associated with higher levels of corruption and informality.[23] Another study finds that barriers to starting a business are significantly and negatively correlated with business density, calculated as the total number of businesses registered as a percentage of the economically active population (ages 15–64) that year. For example, the fewer the procedures required to start a business, the greater the number of registered firms. There is also a close relationship between the cost of starting a business (as a percentage of gross national income [GNI]) and business density. For every 10-percentage point decrease in entry costs, density increases by about 1 percentage point.[24]

48. **Rationale.** Besides saving time and money, sound and sustainable institutional frameworks for business entry administration and updated transparent and accessible databases on businesses are the core building blocks of a good business environment. An automated company registration system and eventually a more integrated online registration process, including tax and social security formalities, will remove barriers for would-be entrepreneurs and small business owners. Such reform efforts have been linked with higher levels of employment and productivity.[25]

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[22] Fritsch, Michael, and Florian Noseleit. 2013. "Investigating the Anatomy of the Employment Effect of New Business Formation." *Cambridge Journal of Economics* 37 (2): 349–77.
[23] Klapper, Leora, and Inessa Love. 2011. "The Impact of Business Environment Reforms on New Firm Registration." Policy Research Working Paper 5493, World Bank, Washington, DC; Motta, Marialisa, Ana Maria Oviedo, and Massimiliano Santini. 2010. "An Open Door for Firms: The Impact of Business Entry Reforms." Viewpoint 323, World Bank Group, Washington, DC. https://www.wbginvestmentclimate.org/uploads/323-Business-entry-reforms.pdf.
[24] Klapper, Leora, Raphael Amit, and Mauro Guillen. 2010. "Entrepreneurship and Firm Formation across Countries." In *International Differences in Entrepreneurship*, edited by Joshua Lerner and Antoinette Shoar. Chicago: University of Chicago Press.
[25] Motta, Oviedo, and Santini 2010; Klapper and Love 2011.

49. According to the Doing Business database, in economies with an online platform, the time it takes to register a business averages 12 days versus 27 days for those countries with paper-based registration processes. It is also cheaper: It costs about 10 percent of GNI per capita to register a company in a country with an online platform compared to an average cost of 34 percent of GNI per capita in a country with only a paper registration processes.[26] The use of ICT in company registration not only makes the registration process faster and cost-effective, it also enhances the data integrity, information security, and transparency of the registration system and supports the verification of businesses' compliance with various regulations and licensing requirements. Also, in top performing countries the online registration process addresses multiple formalities simultaneously (for example, company, tax and social security registration), thus eliminating the need for now-dated 'one roof' one-stop shops where the applicant goes desk to desk to interact with the various involved agencies.

50. **Intervention.** The World Bank will finance the procurement of an upgraded online company registry solution and targeted ICT infrastructure upgrades. Within this activity, World Bank financing will address (a) the procurement of the base software licenses, custom registry software development, and targeted ICT infrastructure investments for the upgraded MONE technology platform; (b) consultancies to support the design of a registry system aligned with good international practices and capacity building within the MONE to ensure the sustainability of the upgraded platform; and (c) funding for a communications campaign to build awareness in government to business stakeholders of the benefits of registration.

51. This project activity will also support registry modernization in Gaza and alignment with the West Bank once an overall approach to reconciling the differing registration models has been agreed.

Activity 4: Developing home-based businesses framework (US$0.5 million)

52. **A 'home-based business' (HBB) is defined as one whose activities are based at home such that the use of the house for business purposes is secondary to its main residential use.** The practice of the activity does not create an impact beyond that normally associated with residential use, restrict the ability of residents of the area to enjoy their normal way of life, or alter the residential character of the area.

53. **In the WB&G, these home-based entrepreneurs, many of which are women and youth, are currently unable to formalize due to regulatory restrictions** imposing—among other requirements—the purchase or rental of a physical office space (nonresidential) for the company, an unnecessary cost that puts formalization out of reach for most. These restrictions prevent home-based entrepreneurs from reaping the benefits of formalization such as opening a bank account, getting a loan, gaining access to social protections and public procurement, or having the ability to invoice and formalize transactions.

54. **Rationale.** Many businesses in the WB&G operate informally, sometimes as HBBs. According to preliminary findings of a survey conducted by the PCBS, it is estimated that there are approximately 15,000 home-based informal establishments in the West Bank and up to 20,000 home-based informal establishments in Gaza.[27] In OECD economies, SMEs are the predominant form of enterprise, accounting

[26] "Starting a Business: The Growing Efficiency of Company Registries." Doing Business database; World Bank Group, Entrepreneurship Database. (*Note:* Data from 2013 with sample of 71 economies, 20 of which having automated/online registration).
[27] 2017 Business Establishment Census preliminary results received from PCBS. Final results to be published mid-2018.

for approximately 99 percent of all firms. They provide the main source of employment, accounting for about 70 percent of jobs on average, and are major contributors to value creation, generating between 50 percent and 60 percent of value added on average. In emerging economies, SMEs contribute up to 45 percent of total employment and 33 percent of GDP. When taking the contribution of informal businesses into account, SMEs contribute to more than half of the employment and GDP in most countries irrespective of income levels.[28] A recent World Bank/Union of Arab Banks survey of over 130 banks in MENA shows that only 8 percent of lending goes to SMEs.[29] There is a growing interest in HBB as a form of SME in many countries for several reasons, including minimizing market entry costs and adapting to the changing labor markets. Many individuals start HBBs to offer specialized services or goods to certain populations or groups.

55. **Intervention.** The World Bank will provide financing to support the development of the HBB framework to allow a larger number of individuals to start their businesses and projects with the lowest costs and simplest procedures. It will aim at developing a high-quality licensing system in line with the Government's policy of improving the investment climate by minimizing unjustified costs disproportionately affecting HBBs. The project also aims at enhancing the transparency and clarity of the licensing process, regulating and clarifying procedures and technical requirements. As part of this process, an assessment of the legislative and institutional framework, including the chain of constraints at different levels of government (municipal and national) will be carried out. In addition, roundtables will be conducted to identify binding constraints and incentive mechanism that could be put in place for the formalization of these businesses. These roundtables will include participatory engagement of women's business associations involved in supporting HBBs, NGOs, and other relevant stakeholders engaged in supporting female livelihoods.

Component 2. Building an Outsourcing Hub in Gaza (US$2.95 million)

56. **Rationale.** The abundance of engineering and technology graduates in the Palestinian economy presents an opportunity for outsourcing activities. However, graduates need to upgrade their skill sets to align with market requirements. The IT sector in Gaza witnesses a high unemployment rate and a shortage in supply of skilled developers, despite the graduation of 1,000 students on an annual basis. This is attributed to a deficiency in the educational system and its inability to provide graduates with skills sets that are aligned with the needs of the job market. Because solving the skill gap will in itself provide only a small improvement in employment outcomes, remote outsourcing offers greater opportunity for female and male Gazan youth in the medium term. Outsourcing creates technology transfer that will improve the wider ecosystem of environment of innovation and entrepreneurship in Gaza. Companies in the West Bank, regional ecosystems, and internationally can benefit from the cost-effective nature of outsourcing tasks to Gaza. Factors of competitiveness such as a similar time zone, language skills, geographic proximity, and skilled professionals would provide an advantage for Gaza software companies to access the growing regional ecosystems (mainly Gulf Cooperation Council [GCC]). There is need for a business model in Gaza to rapidly train these fresh graduates while attracting outsourcing partners.

[28] OECD. 2017 "Enhancing the Contributions of SMEs in a Global and Digitalized Economy." https://www.oecd.org/mcm/documents/C-MIN-2017-8-EN.pdf.
[29] "Overcoming Constraints to SME Development in Middle East and North Africa Countries and Enhancing Access to Finance." IFC Advisory Services in the Middle East and North Africa, page 2: https://www.ifc.org/wps/wcm/connect/1e6a19804fc58e529881fe0098cb14b9/IFC+Report_Final.pdf?MOD=AJPERES.

57. **Intervention logic.** In the Middle East and North Africa Region and globally, the World Bank—as well as IFC—has supported similar models for outsourcing hubs, and the World Bank has conducted analytical work of these hubs and rapid IT development centers. A recent study by the World Bank has analyzed international best practices in outsourcing models, including rapid IT training programs such as coding boot camps.[30] The World Bank is also well positioned to draw from firsthand experience in developing a model outsourcing hub in Kenya and Jordan.

Activity 5: Developing the outsourcing model and piloting expansion of an existing organization in Gaza (US$2.95 million)

58. **The project will support the development of a business model for an outsourcing hub in Gaza, including support for a pilot, which will contribute to catalyzing the entry and growth of IT-enabled businesses, by leveraging the thousands of unemployed technology graduates.** This model will include rapid IT skills development and a platform for recruiting private companies, which can outsource services to Gaza IT professionals. To operationalize the model, an existing institution was identified for the pilot—much more efficient than creating a new institution. The institution is Gaza Gateway—better known as GGateway—a not-for-profit organization that taps into the outsourcing potential of human capital, particularly for disadvantaged youth (see box 2 for more on GGateway). GGateway is the main not-for-profit organization that has been supporting software development in Gaza over the last five years. It is uniquely positioned to support skills enhancement for local private companies and carries a good track record in working with donor communities. The organization is women-led and substantially targets female IT graduates (more than 40 percent of trainees). If such local institutions, like GGateway, can develop and advertise their trainees as capable IT professionals, the skills of these Palestinian youth will be enhanced to gradually cater to higher segments in the outsourcing market and facilitate virtual access to regional markets. Equally, it is crucial that the World Bank support the pilot institution to improve its financial sustainability.

59. **The objective of the project's intervention is to help GGateway provide an accelerated coding program to build the skill set of Palestinian software engineers and provide them with up to two years of professional experience through its (software development and data management) outsourcing arm and freelance consultancy platform.** The GGateway training and job placement model is showing good preliminary results. The organization plans to train 390 students in 2018 and place 92 of them through its outsourcing arm and another 126 students through its freelancing platform. GGateway focuses on building problem solving, critical thinking, and hard and soft skills of its students through an immersive two-month training, followed with more than one year of professional experience. The IPSD will help GGateway scale in a sustainable manner by helping it enhance its operations, widen its client base, and increase placement rate of its alumni at local IT companies. In turn, that would contribute to improving the employability of technology professionals and supporting the growth of the wider innovation and entrepreneurship ecosystem.

[30] Coding boot camps are short training programs in programming skills—usually no more than six months—that aim to prepare youth for immediate employment in entry-level positions.

Box 2. Who is GGateway?

Gaza Gateway—better known as GGateway—grew out of the UN institution United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA). In 2013, UNRWA (which sources locally 67 percent of its goods and 91 percent of its services with a very poor IT-related record) was trying to outsource part of its IT local assignments to satisfy the market demand and leverage its contracts with an enduring employment infrastructure to provide local companies with international experience. As a result, UNRWA created an in-house spin-off, the Gaza Gateway, with the threefold mission of (a) attracting new buyers through outsourcing contracts for entry-level employment, (b) hiring recent IT graduates working remotely through overseas contracts, and (c) subcontracting projects and related manpower to local companies (and often to UN agencies). In October 2015, the Gaza Gateway became an independent entity under the name GGateway for Outsourcing Information Technology. Owing to its innovative business model, this social enterprise is able to offer a temporary employment and a capacity-building environment to fresh graduates.

Source: "About GGateway." GGateway, ggateway.tech/about-us/.

Why does GGateway need help?

Against the backdrop of the extensive restrictions imposed on Gaza, the 2014 war, and the debilitated infrastructure, GGateway undertook important services in improving employment outcomes for Gazan developers. However, its graduates are not yet able to compete as freelancers. GGateway is only offering basic training in programming, and its trainees thus do not possess the skills necessary to compete on the global marketplace. GGateway has been able to secure US$1 million in revenue for 2018 with contracts such as Amazon Kindle in Saudi Arabia. For now, GGateway is limited to outsourcing its trainees only on subcontracts with Arabic language context and UN agencies. For 2018, GGateway will cover 80–90 percent of its cost through revenue—up from covering only 50 percent before—but it is still far from financial sustainability.

Why GGateway?

GGateway is the appropriate organization to pilot 'outsourcing Hub' activities in Gaza, based on the following reasons:

(a) It is the main not-for-profit organization that supports freelancing/outsourcing to Gaza.

(b) It is an organization that is central in the Gazan software development ecosystem—training university graduates and providing skilled workers to private companies (supports ecosystem development).

(c) It is a spin-off organization of the UNRWA, with a decent track record in working with the donor community.

(d) It is a women-led organization that maintains a high level of female beneficiaries.

60. The PIA will manage the implementation of the pilot engagement with GGateway. The World Bank interventions will follow a phased approach, which will include (a) operational and market assessment (US$250,000), which will assess GGateway's operational performance, analyze market supply/demand, and identify options for payment; (b) implementation of pilot activities, following a road map developed in the previous phase (US$2,350,000); and (c) sustainability model development, which will include contributions from private sector, fees from trainees, revenues from selling software development services, and/or others (US$150,000). The PIA will cover relevant operational expenses and salaries of GGateway's project staff (US$200,000, approximately 7 percent of the component's budget). The PIA support to GGateway staff salaries will follow a decreasing pattern over the timeline of the project to align with the sustainability plan of the organization. The PIA will conduct the market and performance assessments, develop an action plan for development, and implement the pilot activities.

Component 3. Project Management (US$1.65 million)

61. Component 3 will finance US$1.65 million in project management and capacity building. Of this, US$1.5 million will be project management costs of the PIA including operating, technical, and monitoring and evaluation (M&E) costs. The remaining US$0.15 million will finance capacity building for the MONE. The PIA will be responsible for the day-to-day administration of the overall project planning, coordination, and technical and fiduciary supervision.

B. Project Cost and Financing

62. The IPSD will be financed through a US$13 million grant from the Trust Fund for Gaza and West Bank (TFGWB).

Table 1. Project Cost and Financing

Project Components and Activities	Project Cost (US$, millions)	TFGWB Financing (US$, millions)
Component 1: Entrepreneurship Ecosystem Development	**8.40**	**8.40**
Activity 1: Improving market linkages to Arab communities in regional entrepreneurship ecosystems	2.50	2.50
Activity 2: Developing a dynamic startup finance ecosystem with a core focus on organized angel investing	2.95	2.95
Activity 3: New automated company registration system	2.45	2.45
Activity 4: Developing home-based businesses framework	0.50	0.50
Component 2: Building an Outsourcing Hub in Gaza	**2.95**	**2.95**
Activity 5: Developing the outsourcing model and piloting expansion of an existing organization in Gaza	2.95	2.95
Component 3: Project Management	**1.65**	**1.65**
Total costs	13.0	13.0

C. Lessons Learned and Reflected in the Implementation Plan

63. **Implementing previous private sector-focused interventions directly through the PA has been challenging.** In the Government Services for Business Development (GSBD) Project, the PA MONE was not a suitable implementing partner for such an intervention. The outcomes related to the Project Development Objective (PDO) were mostly not achieved, even after the project was restructured. After four years the GSBD Project was closed, and it was concluded that the PA should subcontract to a private contractor or the World Bank should consider implementing through an NGO.

64. **Learning from the inability to structure a successful implementation under the GSBD Project, the World Bank and the PA chose to outsource implementation under the F4J SOP.** The PA agreed during F4J I preparation to outsource implementation to a private sector company, including selection of the

contractor through a competitive recruitment process. While the implementation of F4J is still in the early stages, it is already clear that implementation of private sector-focused projects is better managed by an outsourced PIA.

65. **The recruitment process for a private sector PIA can be time-consuming, so the IPSD Project should build in sufficient time to carry out the process.** Under F4J I, this process was lengthy, taking 11 months to complete.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

66. **The development of the Palestinian entrepreneurship ecosystem needs a professional entity with extensive expertise in private sector development to tackle the binding constraints of the ecosystem.** These constraints vary considerably including in local capabilities and opportunities, early-stage investment awareness, business entry procedures, and entrepreneurship networking—specifically across the fragmented clusters of the Palestinian ecosystem and more advanced ecosystems nearby. While the relevant Government entity would typically be the implementing agency for similar operations, a private sector company will be the implementing agency for the IPSD. This arrangement aligns with the World Bank evaluation of a recent World Bank-funded private sector development operation—Government Services for Business Development (P126586)—where the project was closed before its planned end date, with an overall unsatisfactory performance. The lesson learned was to select a private sector company, following a competitive process, to bring on board teams of technical expertise needed for the implementation of similar innovative projects.

67. **The PA MONE will conduct a competitive selection process for a PIA from the private sector.** The PIA—which will be a consulting private sector firm, consortium, or similar organization—must have extensive experience in implementing similar private sector development projects, preferably in the Middle East and North Africa Region. Candidates will be evaluated based on proposals submitted to the PA in the context of a competitive process, in which applicants will be required to demonstrate the qualifications and competence of key staff, adequacy of methodology in responding to the proposed assignment, and direct experience specifically related to the assignment. Qualification requirements for key staff are presented in Annex 1. All candidates must be highly professional with a presence in the field (that is, an office) in both Ramallah and Gaza, in accordance with UN security directives.

68. **PIA responsibility.** As a condition for project effectiveness, the MONE must complete the selection of the PIA with the signing of the Implementation Agreement (IA) between these two parties with capacity, functions, staffing, and resources satisfactory to the World Bank. The PIA—with a budget of US$1.5 million through Component 3—shall be responsible for the day-to-day administration of overall planning, coordination, technical, fiduciary (that is, procurement and financial management [FM]), M&E, safeguards, reporting and communication of the activities under the IPSD, all in accordance with the provisions of the Grant Agreement (GA), the IA, and the Project Operations Manual (POM). The PIA will place at least one technical resident advisor within MONE to provide for continuous capacity building and ensure sustainability of the project. Detailed responsibilities of the PIA will be included under the GA and the POM.

69. **Institutional arrangements.** The recipient of the project grant—the Palestine Liberation Organization—shall, through the PA, cause the MONE to maintain overall responsibility for the IPSD Project.

(a) **MONE will establish and maintain an advisory committee (AC).** While the PIA will be responsible for project implementation, the AC will advise on project implementation. The AC will have a composition acceptable to the World Bank, including the MONE and the PA Ministry of Finance and Planning (MOFP), as well as private sector representatives. The mandate of the AC—also acceptable to the World Bank—will include (i) responsibility for review of IPSD progress, (ii) provision of strategic guidance and recommendations over IPSD implementation, (iii) coordination of the involvement of the relevant Government agencies in the project, and (iv) facilitation of public-private sector dialogue.

(b) **Component 1 implementation.** The PIA will conduct firm-level diagnostic assessments to identify the development priorities of beneficiaries. The beneficiaries will be responsible for competitively selecting eligible market access services providers, with terms of reference, experience, and qualifications as set forth in the POM, and the PIA will confirm their eligibility to provide the needed services. The PIA will sign a GA with beneficiary firm(s) to include the market access service required, the costs of the service, the name of the selected consultant, and the financial amounts that the PIA and the beneficiary will individually cover. For the implementation of the catalytic funding grants under Activity 2, an independent Catalytic Funding Grants Investment Committee will be established with terms of reference and qualifications set forth in the POM. The Investment Committee will approve grant proposals as proposed by the PIA and oversee the implementation of the catalytic funding grants.

(c) **Component 2 implementation.** Because the PIA will be providing resources directly to GGateway, there will be a separate Management Agreement between the PIA and GGateway. This agreement will be a condition for disbursement of the funds allocated under Component 2. The signing of the Management Agreement will be a dated covenant of the Grant Agreement—where the recipient, through the PA, will cause the PIA to enter into this agreement with GGateway no later than 180 days after project effectiveness.

B. Results Monitoring and Evaluation

70. **The M&E procedures will be detailed in the POM.** The procedures will include (a) the methodology and implementation plan, (b) preparation of project monitoring reports, and (c) annual results reporting.

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

72. **The PIA will have the responsibility for monitoring the results of the interventions on the beneficiaries.** These responsibilities will be detailed in the POM. The PIA will submit an M&E report to the World Bank semiannually. The monitoring will be based on qualitative and quantitative information collected from project beneficiaries, ecosystem stakeholders, and the MONE. The World Bank will provide M&E support/capacity building to the PIA's M&E focal point.

C. Sustainability

73. **The IPSD operation includes mechanisms for sustainability across its activities:**

(a) Activity 1, which will foster networks and support pilot partnerships between Palestinians from the WB&G and regional ecosystems, will aim to support successful linkages that would provide a demonstration effect for private sector engagement and investment in similar models.

(b) Activity 2, which seeks to build a foundation for organized angel investing, has a main objective of demonstrating that angel and related early-stage investment capital is a viable form of financing for high-potential entrepreneurs in WB&G. As such, the sustainability and continuity will be measured by whether angel investing continues and grows.

(c) Activities 3 and 4, which plan to support automated company registration and the establishment of a framework for HBBs, will stay in effect after the completion of the project because the infrastructure and regulatory reforms will be implemented and adopted by the Government.

(d) Activity 5, which plans to establish a model for outsourcing hub in Gaza, includes a focus on sustainability building, following business terms, to ensure continuity of services post project timeline.

D. Role of Partners

74. The IPSD Project will require the involvement of several existing stakeholders in the Palestinian ecosystem. This will include incubators and accelerators that are currently benefiting or have previously benefited from donor funding. Incubators and accelerators currently operating in the WB&G are listed in table 2.

Table 2. Palestinian Incubators and Accelerators

Name	Type	Establishment	Donors/Funders
Palestine Information and Communications Technology Incubator	Incubator	2004	U.S. Agency for International Development, Oxfam, Wamda, Paltel Group, Mowgli Mentoring, Zmaal, ANIMA Investment Network, European Commission

Name	Type	Establishment	Donors/Funders
Leaders Fast Forward	Accelerator	2004	Welfare Association, European Commission, Ibtikar Fund, Canada Aid, Palestine for a New Beginning, Olof International Center, International Youth Foundation, German Agency for International Cooperation (*Deutsche Gesellschaft Fur Internationale Zusammenarbeit*, GIZ), the Middle East Partnership Initiative, We Effect, United Nations Educational, Scientific and Cultural Organisation, French Consulate, AusAid, the World Bank, Save the Children, United Nations Development Programme, National Endowment for Democracy, Arab Fund, Organization for Petroleum Exporting Countries Fund for International Development, Heinrich Boll Stiftung, Euromed, Source of Hope Foundation, Belgian Development Agency, Mercy Corps, Spark
Gaza Sky Geeks	Accelerator	2011	Mercy Corps, Google for Entrepreneurs, Vitol, Skoll Foundation, the Coca Cola Foundation, the Asfari Foundation, National Beverage Company, Techstars Foundation, Stripe, Bank of Palestine, Paltel Group, Bayt, Ibtikar Fund, Microsoft, Angelhack, the Arab Palestinian Investment Company, Konrad Adenauer Stiftung, Merci Middle East Children's Institute, Transition, Geekettes, 500, Technovation, Shared Studios, Palestine Development and Investment, Limited
Rawabi Tech Hub - Connect	Incubator/co-working Space	2017	Privately founded and owned by Rawabi

75. There are also 32 incubators spread over WB&G that are currently underutilized due to lack of activities. Those incubators could be used for events, meetups, and could potentially provide space for entrepreneurs and business to utilize for early-stage business activities.

76. VC investors have been operating in the WB&G since early 2000. Yet access to finance as well as to markets remain significant challenges for the Palestinian IT sector. Many VC funds have ceased to operate due to a lack of interesting opportunities. There remain several active VCs in WB&G that invest at different stages in the life cycle of businesses. Those include the following:

(a) Ibtikar Fund (early stage) - Investors include IFC

(b) Sadara VC (advanced stage) - Currently raising second fund

(c) Siraj VC (mature stage) - Currently raising second fund

77. Other financial institutions, specifically the Bank of Palestine, have taken special interest in the development of the entrepreneurial ecosystem. Those institutions are and will continue to provide innovative infrastructural as well as financial tools that will assist in facilitating the success of new businesses. It should be noted that the Bank of Palestine is a limited partner in Ibtikar.

E. Donor Activity

78. Efforts to encourage private sector development in the WB&G have been ongoing for more than 15 years. Donor-backed initiatives have been focused on (a) skills development and entrepreneurship training, (b) investment guarantees against political risk, (c) loan guarantees to expand access to credit, and (d) guarantees to catalyze investments through PE funds.

79. The Economic Monitoring Report submitted by the World Bank to the Ad Hoc Liaison Committee on March 19, 2018, notes that aid inflows to WB&G are projected to decrease in 2018, resulting in a financing gap of about 2.9 percent of GDP. Current aid reductions and minimal growth resulting from existing VCs and grants offering initiatives support the World Bank's efforts described in Component 1. Developing a dynamic startup finance ecosystem by cultivating business angel investors creates domestic financial sources that can continue to support entrepreneurs and startups financially and professionally.

80. Access to markets and resources is a critical challenge that hinders private sector growth in the WB&G. Fostering market linkages between the Palestinian entrepreneurship ecosystem and more advanced proximate ecosystems remains unexplored. The World Bank's Innovative Private Sector Development Project provides a new medium for entrepreneurs to develop their skills, diversify their products, and access new markets and opportunities.

81. The World Bank team built on the lessons learned from similar efforts conducted by other donors with regard to organizing B2B and networking events. The team highlighted the importance of training and preparing SMEs with a clear product development, market identification, and accordingly a more solid networking and business matching potential.

82. Other donor initiatives implemented in the WB&G with the objective of improving the business ecosystem focused on reviewing policies and providing reform recommendations. The IPSD, on the other hand, supports the infrastructure for automating the business ecosystem.

83. Entrepreneurship development donor initiatives continue to support women's inclusion and participation in business. The IPSD provides an innovative approach that supports other donor-backed initiatives by allowing women to formalize their businesses through the HBB component.

V. KEY RISKS

A. Overall Risk Rating and Explanation of Key Risks

84. **The overall risk rating for the IPSD is High.** The IPSD operation takes place in the context of a recent shift in the World Bank strategy for the WB&G toward private sector-focused interventions. While such interventions in this context come with a lot of uncertainty, the World Bank is committed to making such attempts to improve economic opportunities for Palestinians.

85. **Political and governance risk is high.** The peace process has become uncertain following the announcement in December 2017 about the moving of the U.S. Embassy to Jerusalem. The domestic political situation remains unsettled, with the PA continuing a protracted reconciliation process with the de facto governing authority in Gaza—which if successful would cause a significant fiscal challenge to the

PA. Gaza has seen conditions steadily deteriorate over the last two decades, leading to a collapse of the economy and basic social services. Recent economic data revealed a drop in Gaza growth from 8 percent in 2016 to a mere 0.5 percent in 2017 with almost half of the labor force unemployed. The drop is attributed to a decline in inflows that has weakened reconstruction activity and led to a sharp decline in the income of a quarter of Gazans. The potential reconciliation with Gaza, which would be positive for the territories overall, could increase the expected financing gap for 2018 from US$440 million to US$1 billion. Measures proposed by the PA will not be enough to close the gap and it will resort to domestic sources of financing. Donors can also help by offering innovative financing instruments that can mitigate risks holding back transformative investments by the private sector in Gaza. The long-lasting Israeli restrictions on movement, access, and trade remain as substantial impediments to project implementation in WB&G, particularly in Gaza. To mitigate these risks, political and security developments are monitored routinely for the World Bank Group to remain alert to any situation that may require adjustments to its operation. The World 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.

86. **Macroeconomic risk is high.** Political instability, including the 2014 war in Gaza and the recent outbreak of clashes in both Gaza and the West Bank, has remarkably increased the level of uncertainty and negatively affected business confidence. Also, the ongoing system of restrictions on movement, access, and trade imposed by the 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 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. To minimize the effects of macroeconomic shocks, the project is being implemented through a private sector company—which is less likely to be functionally affected by economic and fiscal constraints in comparison to the PA. If this project is successful in improving economic opportunities for individuals and firms in WB&G, the resilience of these beneficiaries to withstand such shocks will be increased.

87. **Sector strategies and policies risk is substantial.** Generally, World Bank interventions in the private sector—especially in the context of Fragility, Conflict, and Violence such as the WB&G—will be riskier, because the World Bank has engaged mostly in the public sector since it began supporting the Palestinians after the Oslo Accords in 1993. With private sector-focused interventions being the World Bank's new strategic focus in the WB&G, the risk is decidedly worth taking. To mitigate this risk, the IPSD Project will focus in part on IT-enabled businesses, as this sector best mitigates the restrictions on movement and access imposed by the GoI. The digital economy is the least dependent on physical infrastructure and physical import/export. Telecom and broadband infrastructure have been adequate in the major cities,[31] and now the 3G network is entering the West Bank, further reducing restrictions on the

[31] According to stakeholder consultations.

digital economy. This targeted approach by the project will mitigate risks by focusing on areas of the economy with the least apparent restrictions.

88. **Technical design of the project is high.** While Activity 3—New automated company registration system—draws upon significant World Bank experience globally, Activity 1—Improving market linkages to Arab communities in regional entrepreneurship ecosystems—and Activity 5—Developing the outsourcing model and piloting the expansion of an existing organization in Gaza—are being piloted for the first time in the WB&G. Innovative solutions are needed to address the fragmentation affecting the Palestinian ecosystem, but mitigation of the technical design risk is key. These activities will employ pilot initiatives to test the design before it is scaled to full potential and will be monitored closely and will follow a paced approach in implementation. The World Bank will deploy global expertise in establishing market linkages, enhancing skill sets of IT professionals, and developing software outsourcing opportunities to ensure proper implementation of these pilots and put forward plans for scale-up in collaboration with local industry experts.

89. **Institutional capacity for implementation and sustainability is high.** In the few prior private sector-focused interventions, implementation has been challenging. As mentioned earlier (see 'Lessons Learned'), there is a lack of strong institutional capacity among some public entities in the WB&G to manage complex private sector-focused programs. This could pose a high risk for the IPSD Project, given the complexities of the project activities. As is being done under F4J to mitigate this capacity risk, under the IPSD the PA will competitively select a private sector company to implement all project activities. Still, the risk remains high as was evidenced in the lengthy PIA selection and negotiation process that occurred under F4J. As in F4J, the IPSD necessitates one private sector company to implement a wide array of activities, which could be challenging—to find a single private contractor with such a wide expertise. One mitigation measure of this risk is to ensure that the PIA subcontract certain activities to consultants of relevant expertise. The World Bank will also provide extensive support to ensure the deployment of global knowledge and cutting-edge technical expertise within the local context. To improve public sector oversight and the longer-term ability of public entities in the WB&G to implement such projects, the IPSD will allocate US$ 150,000 under Component 3 to build the capacity of the MONE.

90. **Fiduciary risk—made up of FM risk and procurement risk—is substantial.** The overall rating for FM risk is Substantial, and the overall rating for procurement risk is initially assessed as Substantial and will be fully assessed after the selection of the PIA. Details are included in the 'Appraisal Summary' sections on FM and procurement.

91. **Stakeholders risk is high.** The stakeholders of this project include a wide range of actors from the Palestinian entrepreneurship ecosystem, advanced proximate ecosystems, the public, and not-for-profit sectors. With such a variety of stakeholders, the project will have communication challenges to go along with the complex interventions. Even within the Palestinian ecosystem, working in both the West Bank and in Gaza creates added complexity as stakeholders in Gaza will be more difficult to monitor—and there may arise telecommunication infrastructure difficulties with reaching Gaza. For Component 1 activities, the project will not provide cash transfers to eligible firms and individuals in Gaza but instead reimburse costs associated with market access services or investment readiness support or pay directly to selected business service providers (vendor). For Component 2, the only entity that will receive cash transfer on reimbursement basis to implement the component activities is GGateway, following the PIA's fiduciary due diligence and FM procedures. For the HBB activity, there is also the risk that the operation will

encounter a lack of commitment from the Government counterparts to support the regulatory changes when necessary. Numerous rounds of consultation and stakeholder engagement will be undertaken—including with private sector representatives—to build momentum and commitment to implement these innovative activities and reforms. A comprehensive communication strategy will also be developed and implemented to proactively engage key stakeholders.

92. **Other—Engagement of key stakeholders in the implementation—is substantial.** Because the PIA will manage the implementation of activities, the project may face the potential risks of (a) not actively engaging the MONE and private sector in the implementation of the project activities, (b) not having a voice for the private sector in the design of reforms, (c) potential overlap with new donor projects supporting entrepreneurship, and (d) limited ability for the PIA to facilitate business registration reforms with other Government entities. As a mitigation measure, the project will form an AC—including the PA and private sector representatives—to (a) coordinate activities with relevant government and donor agencies to ensure proper synergies, (b) facilitate public-private dialogue to ensure the buy-in of relevant stakeholders to suggested business registration reforms, and (c) engage the MONE and the private sector in the implementation of the project.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

93. **The World Bank's impact under the IPSD Project is in alleviating the binding constraints on resources and the business environment that undermine entrepreneurial growth.** Human capital development, under Component 2, will be a key driver for future entrepreneurial growth. One of the chief binding constraints on the resources of Palestinian entrepreneurs is the availability of well-developed human capital.

94. **Public sector provision of financing in the IPSD Project includes grant financing from the TFGWB**—a trust fund that has usually been replenished yearly since 1994. Under the extensive restrictions of the GoI upon the Palestinians, the economy is generally stymied, creating the need for public resources to stabilize the Palestinian economy and mitigate certain market failures that can lead to growth. It is hoped that the scarce public resources used in this project will mobilize private sector capital in the medium term, promoting sustainable growth of the entrepreneurship sector. These public sector resources will be used strategically to combat the binding constraints on the entrepreneurship ecosystem, stimulating increases in foreign and domestic private investment.

95. **This project greatly benefits from the World Bank's technical expertise and convening influence.** The World Bank will draw on global experience to form innovative solutions for the unique context facing the Palestinians. For example, the World Bank is drawing from entrepreneurship development experience in Kenya, angel network frameworks in Jamaica, and licensing regime activities in dozens of countries including Brazil, Greece, India, and Jordan. For the activity on linkage to regional ecosystems, the World Bank is able to use its credibility to engage a range of actors—sometimes a sensitive task—to convene a wide array of targeted stakeholders in the entrepreneurship ecosystem.

96. **IPSD's value addition lies in its new approach to support the private sector in the WB&G**, which is summarized as follows:

(a) The IPSD addresses the limited market access for Palestinian entrepreneurs by creating linkages with Arab communities in regional ecosystems. Those linkages will expose Palestinian private sector in general and entrepreneurs in specific, to new skills, technology, and resources that will allow them to address the market access challenge.

(b) The IPSD focuses on market linkages through diaspora communities. There are approximately 6 million Palestinians around the world. Many of whom are successful businessmen and women and can be key players in angel investing and outsourcing technology jobs to the WB&G.

(c) The IPSD builds on lessons learned from previous donor-backed initiatives that implemented B2B and networking events. Preparing the Palestinian private sector in terms of skills, products, and suitable markets is a key prerequisite before market access efforts.

(d) The IPSD offers new financial resources (angel investments) that contribute to previous projects implemented by the World Bank in the WB&G.

(e) The World Bank angel investments' approach to entrepreneurship and startups cultivates the Palestinian early investment market and creates a network of investors that can act and support entrepreneurs in a structured, skilled, and informed manner.

(f) Despite challenges in Gaza, the IPSD identified an IT outsourcing organization (GGateway) that has succeeded in creating a platform for IT professionals in Gaza. Supporting an existing and organic initiative with the skills, finances, and networking provides the organization with the tools to success and to be able to provide more support to young entrepreneurs in Gaza.

(g) The IPSD offers support for the MONE in its efforts to improve the business registration process by providing the technology infrastructure that allows for an automated registration process. This subcomponent encourages more startups to register their businesses in a speedy and cost-efficient manner. It also promotes predictability and transparency among entrepreneurs, which contributes to promoting a Palestinian entrepreneurship environment.

(h) The IPSD contributes to women and youth entrepreneurship empowerment. Addressing the barriers to entry for HBBs allows women and youth to overcome economic, social, and political challenges and to reap the benefits of business formalization.

97. **Economic analysis in Component 1: Entrepreneurship Ecosystem Development**

(a) **Activities 1 and 2 on market linkages and angel investment.** Startups contribute significantly to net job creation and angel investors are beneficial to the growth, performance, and survival of startups, even if they are located in economies that are not friendly to entrepreneurs. According to Harvard Business School research,[32] startups that have angel backing are at least 14 percent more likely to survive for 18 months or more after funding than firms that do not. The same research indicates that angel-backed firms hire 40

[32] Harvard Business School. 2016. "The Globalization of Angel Investments: Evidence Across Countries." Working paper 16-072.

percent more employees, and angel backing increases the likelihood of successful exit from the startup phase by 10–17 percent. In countries other than the United States, angel-funded firms are also more likely to attract follow-on financing. A recent (2015) study of SMEs by the OECD found that within the SME size-class, micro firms (less than 10 employees) are responsible for 58 percent of total net employment growth (the highest proportion) while new firms (younger than five years) were responsible for an overwhelming majority of new jobs. Analysis of firm census data[33] for the World Bank report 'Jobs for Growth' (2015) shows that it is younger firms and more productive firms that create more jobs in Middle East and North Africa. The project will have a positive impact on the creation and growth of innovative businesses in WB&G by strengthening the services and networks they can access and enhancing their management capacity. It will also result in greater 'efficiency' within the ecosystem as the expert networks are engaged to sort, sift, and promote the best entrepreneurial teams and business models, with poorer ideas 'failing quickly.'

(b) **Activities 3 and 4 on business entry work.** The economic analysis for these activities (establishing a new automated company registration system and a HBBs framework) present a special challenge due to the indirect relationship between the business environment reforms supported under the project and the stream of benefits that these are expected to trigger. For components related to HBBs, the complexity in quantifying economic benefits is multiplied. In the absence of commonly accepted methodologies for the economic analysis of business environment reform, these types of activities are based on cost-effectiveness and more general analytical work on the positive effects of business entry on private sector growth and entrepreneurship detailed in the component descriptions.

98. **Economic analysis in Component 2: Building an Outsourcing Hub in Gaza**

(a) **Activity 5 on a model for skill enhancement and remote outsourcing in Gaza.** According to the impact evaluation of technology rapid skills training (for example, coding boot camps) conducted by the World Bank in Colombia, Kenya, and Lebanon, these programs have led to high employment rates in tech-related jobs and self-employment opportunities among graduates. However, it is difficult to particularly assess how these higher rates would apply in the WB&G, given the market particularities, and whether this would affect salaries. The potential direct economic benefits of supporting GGateway subsist in the creation of high value-added jobs and the establishment of market linkages with regional ecosystems. Indirect economic benefits subsist in the spillover effects triggered by the supply of skilled labor to the market that would spur the growth of existing startups and catalyze the creation of new ones.

B. Technical

99. The technical design of the IPSD Project is aligned with the conclusions of the WB&G Inclusive Diagnostic Note, and the design is based on extensive consultations with stakeholders, including government agencies, private sector leaders, and donors.

[33] World Bank Enterprise Survey database.

100. **Design of Component 1:**

(a) **Activity 1: Improving market linkages to Arab communities in regional entrepreneurship ecosystems.** As this activity was designed for the unique fragility, conflict, and violence context of WB&G, there were few best practices to draw from. The World Bank consulted with a wide range of stakeholders from the Palestinian entrepreneurship ecosystem—and from more advanced ecosystems near the WB&G—to design the technical aspects of the intervention. Stakeholder consultations included startup support institutions (that is, incubators, accelerators, and innovation labs), potential angel investors, VC funds, a sovereign wealth fund, banks, entrepreneurs, and outsourcing companies.

(b) **Activity 2: The activity on developing a dynamic startup financing ecosystem that cultivates business angel investors draws on experience and lessons learned through infoDev's Caribbean Investment Facilitation Project (CIFP - P157484),** which piloted an investment facilitation model to address demand and supply side gaps in the entrepreneurial finance ecosystem. The project has identified and worked with local investors to launch and develop angel investor groups and includes pre-investment and co-investment grant instruments designed to stimulate private investment into early-stage enterprises. To date (the project runs through November 2018), the CIFP has supported five angel investor groups in Jamaica, Barbados, and Trinidad and helped facilitate more than US$3.5 million in funding to 23 enterprises across the region.

(c) **Activity 3: New automated company registration system.** This activity draws on the global experience of more than 144 economies that have introduced online platforms for business registration. Company registries in 95 economies around the world reported extensive use of online services in the World Bank Group Entrepreneurship Survey in 2013. Company registration reforms are the most common type of business environment reform ever registered by the Doing Business reports in the last 10 years. Several economies, including low- and middle-income ones, have put some features online—such as conducting a company name search, filling out and submitting registration forms, and obtaining an electronic identification number. In Costa Rica, Ecuador, Trinidad and Tobago, and Zambia, entrepreneurs can check the uniqueness and availability of company names online and conduct certain transactions online.

(d) **Activity 4: Developing home-based businesses framework.** This activity draws on developing an HBB framework customized to the needs of the local economy. It will draw on the experience of several countries that have undertaken similar reforms such as the United Kingdom where the HBB is regulated and most professions can be registered and licensed depending on the nature of the area and Jordan—a neighboring country with a similar legal framework—which is undergoing an overhaul of its HBB framework to allow home-based entrepreneurs to formalize as part of a World Bank Group TA project.

101. **Design of Component 2.** The technical concept design of Activity 5—developing the outsourcing model and piloting expansion of an existing organization in Gaza—is drawing from successful ongoing World Bank and IFC interventions both in the WB&G and globally—as well as from international best practices studied by the World Bank.

(a) **To align skill enhancement activities in the Gaza outsourcing hub model to relevant industry demands, the IPSD design drew upon the World Bank-financed Education to Work Transition Project (E2WTP - P158951) and the F4J development impact bond (DIB).** The E2WTP is supporting education and training initiatives that develop workplace skills in youth while improving job placement through internships. Under F4J II, the World Bank is financing a DIB that will reward private investors when training and internship programs lead to jobs. Through coordination with these innovative WB&G projects, the IPSD will build upon their experience to address gaps in the quality of Gazan human capital to be responsive to market demands.

(b) **To support the outsourcing hub model to become a sustainable organization with a high reputation among private companies, the IPSD design has integrated international best practices in outsourcing and IT skill enhancement.** The World Bank has published a study on coding boot camps (P163475)[34] of the best practices in rapid IT skill development—including extensive interviews with six boot camp providers operating in East Africa, Latin America, the Middle East, and the United States. The concept design under Component 2 has drawn from lessons of this study and specific consultation with World Bank- and IFC-supported entities in the Middle East and Africa. The IPSD maintains ongoing consultation with a social enterprise in Jordan that has received support under a World Bank-financed project. This enterprise, ReBootKamp, has been successful in quickly training refugees for job placement. The IPSD team also consulted with the IFC-supported Andela company which is based in Africa. This highly successful and now 100 percent sustainable outsourcing model has agreed to provide additional consultation with the IPSD beneficiary as necessary.

C. Financial Management

102. The overall IPSD risk from an FM perspective is Substantial.

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

104. All activities taking place in Gaza will not involve the transfer of funds due to the increased fiduciary risk in Gaza. For Component 1 - Activities 1 and 2, agreements will be signed between the beneficiaries that have been selected and the PIA, which will include details on what constitutes eligible expenditures. Any enterprise in Gaza that is selected will not get the allocation in cash but the enterprise can either submit expenses to the PIA for reimbursement or ask that an expense be paid directly by the PIA to eligible vendors. More information on eligible expenditures will be provided in the POM. For

[34] Mulas, Victor, and Cecilia Paradi-Guilford. 2017. *Coding Bootcamps: Building Future-Proof Skills through Rapid Sills Training*. World Bank.

beneficiaries in the West Bank, the grant can be made directly to the beneficiary. All beneficiaries in the WB&G will be subject to audit.

105. Component 2, Building an Outsourcing Hub in Gaza, will also not involve a transfer of funds. The hub will pay its own expenses and get reimbursed for eligible expenditures from the PIA. The hub will also have the option of getting expenses paid directly by the PIA upon submission of the appropriate supporting documents. Operating expenses will be eligible for payment provided that a list of all such expenditures is submitted to the PIA for approval. All funds provided by the IPSD are subject to audit.

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

107. The PIA will produce unaudited interim financial reports (IFRs) quarterly and submit these to the project counterpart at the MONE, who will endorse and submit them to the World Bank for monitoring IPSD implementation. The IFRs should be submitted to the World 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 project counterpart at the MONE, who will endorse and submit them to the World Bank within six months after year end. These statements will be audited in accordance with international audit standards by an audit firm acceptable to the World Bank and recruited competitively based on terms of reference acceptable to the World Bank.

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

D. Procurement

109. The overall procurement risk rating for the project is initially assessed as Substantial. A procurement capacity and risk assessment of the PIA will be carried out upon its selection. The procurement risk rating will be updated accordingly.

110. Procurement for the IPSD shall be carried out in accordance with the World Bank's Procurement Regulations for Investment Project Financing Borrowers, dated July 2016, and revised in November 2017, and the Procurement Plan, approved by the World Bank. The 'Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants', dated October 15, 2006, revised in January 2011, and as of July 1, 2016, shall apply to the project.

111. The MONE does not hold the competitive advantage in implementing this project due to its limited past experience implementing innovative activities with the private sector. As such, it will competitively select a PIA from the private sector through a call-for-proposals process to carry out project implementation under an IA, subject to the World Bank's no objection. The signing of the IA will be a condition for effectiveness. The PIA will be responsible for project procurement, FM, disbursement, and

M&E in accordance with the signed IA and following the procedures to be outlined in the finalized POM. The PIA, which will house experienced procurement staff, will hold overall responsibility for procurement and will act as the World Bank's counterpart for all procurement aspects of the IPSD. In addition to its responsibility for carrying out procurement for various IPSD activities, the PIA will oversee procurement to be carried out by recipients of Catalytic Funding Matching Grants in accordance with the respective Matching Grant Agreement, or by GGateway in accordance with the Management Agreement. Subject to the assessment of the PIA internal systems and procedures, procurement for the IPSD may follow well-established private sector procurement arrangements or commercial practices, if found acceptable to the World Bank, and which will be documented in the finalized POM. The adoption of the finalized POM will be a condition for effectiveness.

112. The IPSD will finance procurement of goods, IT, non-consulting services, and consultants' services. The MONE prepared an initial Procurement Plan for the first 18 months of project implementation[35] that shall be approved by the World Bank. Once hired, the PIA will prepare a Project Procurement Strategy for Development (PPSD-short version), based on a market analysis which aims to determine the most appropriate procurements arrangements for the project. The PPSD will conclude with an updated Procurement Plan. The PIA will carry out procurement in accordance with the updated Procurement Plan approved by the World Bank.

E. Social (including Safeguards)

113. As the project finances soft capacity building, OP 4.12 was not triggered and there is no need for the preparation of safeguard instruments. As part of the preparation of the project, a stakeholder analysis was done to assess, among others, the potential female benefactors and the need of the market. Young female entrepreneurs are among the main beneficiaries of the project; therefore, one of the key objectives of the proposed operation is to increase the opportunity for women and youth entrepreneurs. The project will support the implementation of several accountability and good governance measures such as the beneficiary feedback mechanisms, grievance redress mechanisms, and evaluations.

114. **Citizen engagement.** The project will engage beneficiaries in providing systematic feedback on the quality of services provided via satisfaction surveys. This information will be integrated into Implementation Status and Results Reports (ISRs) and evaluated at least once per year.

F. Environment (including Safeguards)

115. The project components finance soft capacity-building activities in the ICT sector, and the project activities do not have environmental impacts and do not trigger any safeguards policies. The environmental risk is 'low', and the environmental category for the operation is 'C'. No further environmental assessment is needed.

G. World Bank Grievance Redress

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

[35] Since the PIA is not hired yet, the MONE will prepare the initial Procurement Plan and the PIA will update it.

in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service.
For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

VII. RESULTS FRAMEWORK AND MONITORING

Results Framework
COUNTRY : West Bank and Gaza
Innovative Private Sector Development

Project Development Objectives

To improve economic opportunities for individuals and firms in the West Bank and Gaza.

Project Development Objective Indicators

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: Beneficiary individuals of improved economic opportunities		Number	0.00	6700.00	Annually once program services are operational	Company registry data, project reports, surveys and GGateway	PIA
New sole proprietorships registered (per year)		Number	0.00	3700.00	Annually once program services are operational	Company registry data	PIA
Percentage female		Percentage	0.00	15.00	Annually once program services are operational	Company registry data	PIA

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Graduates, who successfully completed market-driven training		Number	0.00	3000.00	Annually once program services are operational	GGateway	PIA
Percentage female		Percentage	0.00	30.00			
Description: This will include mainly the sole proprietors that are benefitting from Activities 3 and 4 under Component 1, and it will include beneficiaries of GGateway from Activity 5 under Component 2.							
Name: Beneficiary firms of improved economic opportunities		Number	0.00	5015.00	Annually once program services are operational	Project reports, surveys, and company registry data	PIA
Percentage female-owned		Percentage	0.00	15.00	Annually once program services are operational	Project reports, surveys, company registry data	PIA
Beneficiary firms that have raised private investment		Number	0.00	15.00	Annually once program services are operational	Project reports	PIA
Percentage female-owned		Percentage	0.00	15.00	Annually once program services are operational	Project reports	PIA
New firms registered (per year)		Number	0.00	5000.00	Annually once program services are operational	Company registry data	PIA

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Percentage female-owned		Percentage	0.00	15.00	Annually once program services are operational	Company registry data	PIA
Description: Includes firms benefiting from improved business entry and includes beneficiary firms receiving private investment							
Name: Private investment raised by beneficiary firms		Amount(USD)	0.00	5000000.00	Annually once program services are operational	Project reports	PIA
Description: Includes committed amounts							

Intermediate Results Indicators

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: Beneficiary firms that received catalytic funding and market access grants		Number	0.00	164.00	Annually once program services are operational	Project reports, surveys	PIA
Description: Catalytic funding plus market access							
Name: Average number of procedures to comply with business regulation		Number	10.00	6.00	Annually	Company registry system	PIA

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Description: Online company registration will result in a 30% reduction in procedures to start a business by YR 4 and a 40% reduction by YR 5.							
Name: Average number of days to comply with business regulation		Number	43.00	25.00	Annually	Company registry data	PIA
Description: From moment a complete application is accepted until registration is issued.							
Name: Recommendations proposed by the project that are endorsed for implementation		Number	0.00	5.00	Annually once program services are operational	Consultation sessions with various stakeholders of the automated business registration process and the home-based business framework	PIA
Description: Any process or legal reform recommendation proposed by the project that touches upon the automation of business registration and the home-based business framework							
Name: Beneficiaries satisfied with project interventions		Percentage	0.00	70.00	Annually once program services are operational	Survey of beneficiaries	PIA
Description: This IRI will apply across the project.							

Target Values

Project Development Objective Indicators

Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	End Target
Beneficiary individuals of improved economic opportunities	0.00	0.00	1300.00	1800.00	4200.00	6700.00	6700.00
New sole proprietorships registered (per year)	0.00	0.00	0.00	0.00	1800.00	1900.00	3700.00
Percentage female	0.00	0.00	0.00	0.00	15.00	15.00	15.00
Graduates, who successfully completed market-driven training	0.00	0.00	1300.00	1800.00	2400.00	3000.00	3000.00
Percentage female	0.00	0.00	30.00	30.00	30.00	30.00	30.00
Beneficiary firms of improved economic opportunities	0.00	0.00	2.00	5.00	2410.00	5015.00	5015.00
Percentage female-owned	0.00	0.00	0.00	0.00	15.00	15.00	15.00
Beneficiary firms that have raised private investment	0.00	0.00	2.00	5.00	10.00	15.00	15.00
Percentage female-owned	0.00	0.00	0.00	15.00	15.00	15.00	15.00
New firms registered (per year)	0.00	0.00	0.00	0.00	2400.00	2600.00	5000.00
Percentage female-owned	0.00	0.00	0.00	0.00	15.00	15.00	15.00

Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	End Target
Private investment raised by beneficiary firms	0.00	0.00	200000.00	900000.00	2400000.00	5000000.00	5000000.00

Intermediate Results Indicators

Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	End Target
Beneficiary firms that received catalytic funding and market access grants	0.00	10.00	55.00	96.00	139.00	164.00	164.00
Average number of procedures to comply with business regulation	10.00	10.00	10.00	10.00	7.00	6.00	6.00
Average number of days to comply with business regulation	43.00	43.00	43.00	43.00	35.00	25.00	25.00
Recommendations proposed by the project that are endorsed for implementation	0.00	0.00	0.00	2.00	4.00	5.00	5.00
Beneficiaries satisfied with project interventions	0.00	0.00	0.00	60.00	65.00	70.00	70.00

ANNEX 1: DETAILED PROJECT DESCRIPTION

COUNTRY : West Bank and Gaza
Innovative Private Sector Development

Component 1. Entrepreneurship Ecosystem Development (US$8.4 million)

Activity 1: Improving market linkages to Arab communities in regional entrepreneurship ecosystems (US$2.5 million)

1. **Initiative 1: Awareness events (US$100,000).** This initiative will include approximately six awareness and networking events that target potential investors, mentors, entrepreneurs, accelerators, and support entities at the regional ecosystems. The events will provide networking openings for participants and raise the awareness about the Palestinian market, potential investments, value chain (supply) needs, and linkage opportunities and identify issues to address and overcome. A gender-sensitive communication strategy will be developed to help inform the awareness events and ensure that an equitable and wide range of female and male entrepreneurs are included. The events will take place in the WB&G and at target regional ecosystems, in collaboration with diaspora groups, to attract potential investors.

2. **Initiative 2: Database of beneficiaries (US$200,000).** This initiative will include identification of linkage opportunities based on matching available business opportunities with relevant entrepreneurs' capabilities. Building on the wide outreach of the awareness events, the PIA will develop a database of potential project beneficiaries (investors, entrepreneurs, mentors, accelerators, and others) disaggregated by gender, age, and sector and indicate potential linkage opportunities revealed during the awareness events. The PIA will review these opportunities and suggest a list of high-feasibility linkage opportunities to prioritize them for support. The database will provide online access to high-quality supplier/entrepreneur information aligned to the demand from investors. The PIA will leverage available databases, tools, and online portals to facilitate business networking among different stakeholders. This database will be transferred to an agency to be identified at a later stage.

3. **Initiative 3: Business-to-business networking events (US$400,000).** This initiative will facilitate the development of linkage opportunities by organizing networking events between investors and entrepreneurs. The PIA will plan to organize approximately 12 B2B events for potential investors, accelerators, entrepreneurs, large companies, and potential suppliers to facilitate professional networking among potential partners. The PIA will recruit professional facilitators and industry-specific experts to support the implementation of these events, following pre-arranged feasibility assessments and fact sheets. Industry experts will support technical dialogue among potential partners, identify opportunities for follow-up and development, and advise beneficiary firms and suppliers on how to operationalize potential opportunities. Each B2B event will have a thematic focus and will include a brokered mentoring service using the database. The design of events and mentoring services will consider differentiated challenges faced by female and male entrepreneurs. The events will take place in WB&G and overseas, in collaboration with diaspora groups, to attract potential investors.

4. **Initiative 4: Market access services (US$1.8 million).** This initiative will support the implementation of linkage opportunities, which were identified by the B2B events, by providing matching grants to cover the costs of market access services required to bridge any implementation gap. The PIA

will provide market access services to support approximately 100 individual firms, which are registered in the WB&G, are export-oriented, and have attracted investors' attention at the B2B events. The PIA will facilitate the provision of market access services through private providers (consultants) and partially fund the costs (up to about US$15,000 per firm), with the firm covering the remaining expenditure from other sources. The partial funding level will range from 50 percent to 70 percent, depending on the potential of a linkage opportunity. The PIA will also support approximately six groups of firms (up to about US$50,000 per group), if they wish to organize a group-level market access activity (for example, participation at a trade fair, thematic B2B event, and visiting investors' premises). Beneficiary firms will receive matching grants to cover the costs of a wide range of market access services (such as promotional activities, investor/supplier visits, acceleration programs, promotional events, capability development activities, and others). Grant payments to beneficiaries will be made following a reimbursement approach.

5. The PIA will conduct firm-level diagnostic assessments to identify the development priorities of beneficiaries and prepare terms of reference for market access services in need. The beneficiaries will be responsible for competitively selecting consultants to provide market access services, and the PIA will confirm their eligibility to provide the needed services. The PIA will sign a GA with beneficiary firm(s) to include the market access service required, the costs of the service, the name of the selected consultant, and the financial amounts that the PIA and the beneficiary will individually cover. Then, the beneficiary will issue a purchase order to the selected consultant to proceed with implementation. Following the satisfactory delivery of the service, the beneficiary can either submit expenses to the PIA for reimbursement or request that an expense be paid directly by the PIA to eligible consultants (vendors).

6. Activities will be implemented following the suggested plan in table 1.1, adopting a slow start to ensure building alliance among stakeholders. The targets for market access services are used—in combination with the targets for catalytic funding under table 1.3—as the targets for the first intermediate results indicator of the Results Framework. For combining groups of firms with individual firms in the indicator target, it is assumed that on average each group will include 4 firms.

Table 1.1. Activity 1 Targets Contributing to Project Indicators

Initiative	YR1	YR2	YR3	YR4	YR5	End Target
Awareness events	1	2	2	1	0	6
Business to business networking events	1	3	3	3	2	12
Market access services (individual firms)	5	25	25	25	20	100
Market access services (groups of firms)	0	2	2	2	0	6

7. **Eligible market access service providers (consultants).** Any consultant providing market access services must be registered in WB&G as a company, with at least three years of experience in offering market access services to local SMEs/entrepreneurs (track record required) and technically qualified to offer the required market access services. Providers should fulfil the following criteria:

(a) A good track record in providing market access services to companies in WB&G and

(b) Capacity and systems to deliver a grants program, including reach in WB&G, with the characteristics, application, administration, and follow-up activities described as follows:

(i) Knowledge of and connections into WB&G and regional ecosystems

(ii) Linkages with angel investors and outsourcing hub engaged under the project

(iii) Awareness sessions on the initiative for stakeholders, marketing, and fact sheets

(iv) Development of application process and online forms

(v) Assessment, initial check of application for compliance, process for distributing to assessors (discussed earlier), and ranking system

(vi) Approval process for making final approval/denial

(vii) Assistance, payment process for successful applicants, feedback for unsuccessful applicants, project reporting, and completion (spot audit)

8. **Eligible SMEs:** Eligible SMEs/entrepreneurs will be existing businesses with clear growth plans to access a new market. Beneficiary SMEs/entrepreneurs should fulfil the criteria below:

(a) A well-defined and plausible technology or business model that could do what is claimed and be produced to sell to an export market

(b) A well-defined and plausible market and customer base that would be interested in buying the product or service which offers performance, cost, or other benefits over and above those of current products or other potential market competitors

(c) A sound leadership and management team with the right skills and personal strengths of persistence and determination to continue to build a successful business and realize the value contained in the business idea

(d) Proposed expenditure within the project that makes sense—and represents value for money (for example, proposed consultancies are relevant and related to the venture and salaries and wages are comparable to market rates)

9. **Eligible activities under the market access services will include the following:**

(a) Marketing and communication strategies, including branding strategies and social media/digital strategies

(b) Production process improvement and technology upgrade

(c) Strategic intellectual property plans, diversification and product/service innovation and development, and research and development planning

(d) Identification of new markets, sector analysis and market development, export strategy, including compliance with foreign laws and regulations

(e) Investor/supplier visits, acceleration programs, and promotional/ networking events

Activity 2: Developing a dynamic startup finance ecosystem with a core focus on organized angel investing (US$2.95 million)

10. **Business angel investing has the potential to emerge as an effective form of capital to bridge the equity gap for Palestinian early stage enterprises and could play a foundational role in the broader entrepreneurial financing ecosystem.** Angel investing involves HNWIs, typically successful entrepreneurs, industrialists, corporate/business executives, and investors investing their own capital into startup and early stage businesses. Angel investors play a key role in bridging the 'equity gap' between the entrepreneurs' financial resources (their own funds as well as those of friends and family) and growth financing from venture capitalists, PE, or debt finance, and often provide strategic and network value to entrepreneurs.

11. **Locally, there are a few 'informal' angels making investments, but these actors largely operate independently.** In developed markets—and increasingly in emerging markets—angels often operate within groups to benefit from the collective wisdom of other experienced professionals and to share the work load. In the WB&G, angels have not coordinated into formal groups, leaving them ineffective and difficult for entrepreneurs to access. Successful angel investment groups (that is, manager-led groups and funds) require efficient operating structures, practiced due diligence processes, and reliable investment methodologies.

12. **There is a strong need to address knowledge deficiencies in startup investing/fundraising on both the supply and demand sides.** HNWIs in the West Bank largely come from non-digital/technology backgrounds, have a general risk-averse mentality, and are unfamiliar with startup investment structures and strategies (though regional ecosystems and diaspora could represent an attractive pool of technical angels). On the demand side, obstacles include equity aversion, lack of investment readiness, and poor investor engagement skills among Palestinian entrepreneurs. Compounding this issue is a general mistrust between entrepreneurs and investors due to potential intellectual property and control issues.

13. **Intermediaries such as incubators, accelerators, and advisers largely lack capital raising experience and the technical capacity to prepare entrepreneurs to engage investors, and the region does not have a systematic mechanism to source and prepare promising startups for investment and connect them with prospective investors.** Current incubators and entrepreneur-enabling organizations have limited experience in supporting client investment readiness and investor engagement and are unable to provide transaction advisory services. Further, there is limited or no incentive for incubators to work on behalf of clients given no (financial) upside and long-time horizons for enterprises to successfully raise capital.

14. **The regional ecosystems are flourishing with activity. Countries like Jordan, Lebanon, Egypt, and the United Arab Emirates have established and developed their ecosystems. Those countries have several active angel investment groups and startup focused funds/investors looking for potential investment opportunities.** Currently Palestinians in the WB&G have limited access to angel investment opportunities in the abovementioned countries, mainly due to the lack of links. The lack of structured

Palestinian angel investment networks to connect with other angel investment networks in proximity limits the interest for proximate angels and other early stage investors to invest in WB&G.

15. **The project will address these market failures through the following interventions:** (a) angel investor group building, (b) investment readiness advisory, and (c) catalytic funding. Moreover, it is envisioned that facilitating the first batch of angel investments will provide a demonstration effect that will help grow interest and trust in the entrepreneurial financing ecosystem and influence the Government and other stakeholders to improve the enabling policy environments for entrepreneurial finance.

16. **Initiative 1: Angel group/network building (US$0.8 million).** This initiative will promote and support the development of new angel groups in the WB&G, targeting the formation and development of two to three active angel groups over time. The activity will by design adopt an iterative, consultative approach to respond to the needs of prospective angels, whether local or diaspora, to ensure appropriate organized angel investing models are developed. Implementation will be coordinated through the PIA and may include contracted expert regional and international angel investors (or angel development organizations) as lead coaches and TA providers, either as part of the PIA consortium, or subcontracted. The package of assistance to mobilize angel investors and support organized angel investing development may include the following:

(a) Direct coaching to angel champions, investors, and group managers

(b) TA on network/group design and build-out (developing an operating model, member recruitment strategy, deal sourcing channels, due diligence frameworks, standard documentation, public relations, and so on)

(c) Performance-based operating funding to angel groups/network

(d) Study trips to regional/international angel investing conferences

(e) The project may also engage in system-level activities benefitting all Palestinian angel groups, such as

(i) Development of common documents and guidelines for entrepreneurs and investors;

(ii) Advice and documentation on investment instruments appropriate for the Palestinian market (standard equity, quasi-equity, convertible debt, quasi debt, revenue share agreements or guarantees, and so on):

(iii) Engagement with service providers such as legal firms on angel investing topics; and

(iv) Diaspora investing/investment syndication/sidecar funds.

17. **Initiative 2: Investment readiness advisory services (US$0.65 million).** To assist in strengthening deal flow, the project will aim to work with three to five intermediaries such as incubators, accelerators and advisory firms to address entrepreneur investment readiness and investor engagement deficiencies:

(a) The investment readiness initiative will be delivered through a structured program to build capacity in intermediaries in order that they may better prepare entrepreneurs to receive capital, based on market requirements. The capacity building program for intermediaries could include the following:

(i) Trainings to build intermediary staff capacity in early stage capital raising strategies

(ii) Technical support to develop curriculum and resources for a training program

(iii) Ongoing guidance on providing access to finance support services to clients

(iv) Performance-based funding linked to successful fundraising of clients

(b) Selected intermediaries will be expected to provide a mix of the following:

(i) An inception report describing envisioned implementation details

(ii) Training materials to support the fulfillment of the investment readiness training objectives

(iii) Information sessions to guarantee take-up

(iv) Coaches/mentors to support the individual needs of entrepreneurs

(v) Data collection and reporting

(c) Intermediaries should have the following qualifications:

(i) Experience designing and delivering access to finance services for young firms

(ii) Capacity to deploy the program across WB&G (such as a pool of qualified investment readiness advisers and mentors)

(iii) Connections with prospective investors

18. **Initiative 3: Catalytic funding grants (US$1.5 million).** Through a facility managed by the PIA, catalytic funding grants will be provided to startup and early stage enterprises that help stimulate private investment by first-time angels and to encourage investment syndication between seasoned and less-experienced investors. The core success metric of the grants will be whether they result in private investment while also providing funding that enables entrepreneurs to develop and grow their business. Two instruments will be used, including pre-investment and co-investment grants:

(a) Pre-investment grants will involve grant funding to enterprises that have not received any third-party investment[36], and show business and investment promise but are still not considered 'investment ready' by investors. The purpose of these grants will be to provide

[36] Third party investment refers to non-grant investment capital that is coming from sources other the entrepreneur(s), his/her family and/or friends.

funding for entrepreneurs to address shortcomings identified by investors and to improve the likelihood that companies can subsequently secure angel (or other relevant early stage) investment within a short time frame (targeting 3–6 months). Pre-investment grants will be available in the amount up to US$30,000.[37]

(b) Co-investment grants will provide supplementary funding to enterprises that are able to raise investment from business angels and other eligible early-stage investors. The purpose of these grants will be to provide additional funding—beyond what investors are willing to make—to help early stage enterprises develop and grow. The grants may also help lower the risk perception of investors by better capitalizing the enterprises, thereby providing a longer 'runway' to achieving business development milestones that lead to stronger businesses. In addition, supplemental grant funding could encourage investors to spread capital across more investments (portfolio strategy), thereby leading to more entrepreneurs receiving the benefits of angel investors as partners. The IPSD co-investment grant disbursement would be made only after the enterprise has received the capital investment from the investor, and the entrepreneur would need to secure a minimum of two-thirds (67 percent) of the capital from investors,[38] with the IPSD contributing up to one-third (33 percent) of the funding up to a maximum grant of US$100,000 per enterprise.

Table 1.2. Catalytic Funding Grants Design

	Pre-Investment Grants	Co-Investment Grants
Funding uses	Working capital, product development and/or testing, market testing, intellectual property protection, sales and business development, and organizational development	Business development/sales/marketing activities, product refinements, organizational development and capacity building, and intellectual property protection
Recipients	Startups and early stage enterprises registered in the West Bank or Gaza	
Grant size[a]	Maximum of US$30,000 per company for investment readiness project activities that will be completed in 3–6 months	Maximum of US$100,000 per company
Features	Standard grant	• Up to one-third of the total capital raise. Entrepreneur must raise minimum two-thirds of funding round from private investors • Minimum US$50,000 private investment to qualify for co-investment grant • Private investment must be structured as equity or quasi-equity instrument

Note: a. Because a core success indicator of the catalytic grant funding is to enable enterprises to secure private investment, a pre-investment grant beneficiary may also go on to secure a co-investment grant provided that a qualifying private investment is made. In this scenario, the total funding permissible for a single enterprise between the two grants would be US$100,000.

19. **To be eligible for IPSD funding, an enterprise must have a presence in the West Bank or Gaza with the core of its operations conducted in the West Bank or Gaza, even if the product target market**

[37] The size of individual pre-investment grants will vary from grantee to grantee, depending of the appropriate amount necessary to achieve investment readiness milestones to attract private investment.
[38] As the project develops, the proportional funding requirements from private investors to be eligible for the co-investment grants may be increased from the minimum of two-third of capital contribution.

is external. This includes companies with foreign shareholders and Palestinians and/or legal residents. For co-investment grants, investors will also be required to meet established eligibility criteria.

(a) **Company eligibility.** Each company applying for a catalytic funding grant must meet the following eligibility criteria:

(i) Be a company legally registered in and principally operating out of the West Bank or Gaza

(ii) Ownership team (founder/co-founders and directors) must pass business fiduciary background checks

(b) **Investor eligibility.** Entrepreneurs receiving co-investment grants as a match to investment made by private investors must work with investors that meet the following criteria:

(i) Angel investors including angel groups/networks or individual angel investors in WB&G, and/or regional ecosystems.

(ii) Early stage institutional investors_including, but not limited to, VC firms, SME funds, online investment platforms, and impact investors[39];

20. **Grant funds should be used for business development purposes, and the application should include a project proposal and budget that identifies the use of funds.** Guidelines regarding project uses of funds will be developed and outlined in the POM to be approved by the World Bank. GAs with recipients will include conditions that prevent the misuse of grant funds, such as the use of grant funds as distributions or dividends paid to investors (either cash or shares) or other activities forbidden through shareholder or company operating agreements as specified in the sub-grant agreements.

21. **Applications for co-investment grants and pre-investment grants will be submitted directly to the PIA on a rolling basis.** An independent Investment Committee will be established, with experts experienced in early-stage investing. For pre-investment grants, the PIA will conduct reviews of applications as well as conduct relevant due diligence and will pass along qualifying applications to the Investment Committee for approval. The POM will ensure that clear detailed eligibility criteria are documented, applied, and monitored. Moreover, Investment Committee members will be selected based on certain criteria to ensure that they are qualified and independent. Similar to angel co-investment funding schemes operating in other countries, co-investment grants will rely on angels and private investors to carry out the bulk of the commercial/business due diligence on the enterprise, while the PIA will take an active role in verifying the fiduciary aspects related to the applicants. This includes (i) the eligibility of the beneficiary, (ii) the eligibility of the investors (iii) use of funds, and (iv) a confirmation of investment by the participating investor. This information will then be passed on to the investment

[39] To ensure complementary and avoid duplicating with the EE-MG component of the F4J project, funds eligible to receive support from the EE-MG program would not be eligible for being eligible investments for IPSD Catalytic Funding Co-Investment Grants.

committee for approval.[40] The primary factor for approval will be the ability to secure investment from a private investor.

22. **Grant funds will be disbursed through either a single or two-tranche transaction directly to the entrepreneur's bank account, set up exclusively for the purpose.**

Table 1.3. Activity 2 Targets Contributing to Project Indicators

Initiative	Cumulative Target Values				
	YR1	YR2	YR3	YR4	YR5
Number of IPSD supported enterprises receiving private investment	0	2	5	10	15
Total capital mobilized from private investors into IPSD supported enterprises (US$)[41]	n.a.	200,000	900,000	2,400,000	5,000,000
Number of enterprises receiving catalytic funding grants	5	12	20	30	35

Activity 3: New Automated Company Registration System (US$2.45 million)

23. **The effort to move business registration online will focus initially on the upgrading of the MONE's current unified technology platform, which supports all the ministry's registration and licensing activities**. While GIZ has recently funded the implementation of a new data center in the MONE, the foundational software and database technologies (Oracle) supporting the various registration and licensing applications are outdated and need to be replaced before any upgrades to the company registry functionality can be designed and implemented. In addition, the capability to register and authenticate users who wish to apply for MONE's online services (for example, corporate and intellectual property registration) needs to be established.

24. **The company registry module of the MONE platform will be then redesigned to support** (a) online name search and reservation, (b) online registration for all categories of companies as well as sole proprietorships and nonprofits, (c) post-registration activities such as online filing of annual accounts and changes to company particulars, and (d) improved availability of company information to the private sector and other government agencies—the latter being a core function of these registries. The underlying document management capabilities of the current platform will also be upgraded and the system will also be designed to support the current interagency effort establishing a unique business identifier to facilitate the exchange of company information across the Government. The current company registration numbering scheme will also be retained as it is critical for export/import procedures with the Israeli government.

[40] Examples include the Scottish Co-Investment Fund (launched in 2003, twice capitalized totaling £127 million) and the New Zealand Co-Investment Fund (launched in 2007, £20 million fund capitalization), which both focused on developing angel investing ecosystems through a commercial investment focus. The investment process of the Scottish Co-Investment Fund includes contractual partnerships with investors, while the New Zealand Co-Investment Fund uses a pre-qualification method, which is proposed in the CIFP. *Source: EKOS Limited research funded by the European Union, May 2013.*

[41] Indicator includes all private capital raised through the initial co-investment syndicate as well as follow-on private investment in subsequent funding rounds.

25. The remaining registries operated by the MONE, which include trademarks, patents, and industrial designs, are being moved online through a parallel intervention being supported by the World Intellectual Property Organization and will be hosted on the same shared technology infrastructure.

26. **The current informational portal operated by the MONE will also be upgraded to support all aspects of business registry service delivery, allowing entrepreneurs and lawyers to establish online accounts where they can securely file name reservations, registrations, annual accounts, and updates and interact online with registry staff**. This redesign will also increase transparency by publishing details of all registration procedures, allowing applicants to view the status of their registrations and facilitating feedback from businesses on the quality of government service delivery. The upgraded registry platform will also continue supporting front counter delivery of registry services through the existing network of offices, including the digitization and archiving of all paper documents submitted.

27. **The redesign process for the registry software application will also aim to eventually incorporate other registration processes, such as income tax and value added tax registration as well as the expected new requirement for social security, through online data exchanges with these other registries**. The infrastructure for electronic data exchange within the Government (Estonian X-Road) has already been implemented and is being used by the MONE and other ministries, departments, and agencies. This will benefit applicants by reducing the number of distinct procedures and office visits needed to meet all the required formalities.

28. **A fully paperless registration process is not currently possible because the technical infrastructure for digital signatures is still under development**. Also, there is no centralized government ePayment capability although there are limited online payment options (for example, credit cards) provided by banks and payment processors. However, the payment services landscape continues to evolve, so the upgraded system will be designed to easily incorporate new digital signature and ePayment services as they become available.

29. **The improved company registry can also be leveraged by other agencies in WB&G to simplify their administrative and licensing procedures through the sharing of company information through the X-Road data exchange capability,** thus eliminating the need to produce paper registration documents when applying for other formalities. This is consistent with the European Union's principle of 'submit information once' which is now being adopted by many countries across the world as part of their effort to reduce the compliance burden on businesses.

Activity 4: Developing home-based businesses framework (US$0.5 million)

30. **Business entry requirements directly affect the ability of entrepreneurs to formalize as an HBB**. Municipal licenses, national legislations and regulations, and business regulatory requirements such as company registration, tax registration, or social-security-related procedures may, at a minimum, reduce the formalization of HBBs in the West Bank and Gaza and, at most, prevent them from registering altogether. According to preliminary findings of a survey conducted by the PCBS, it is estimated that there are approximately 15,000 informal home-based establishments in the West Bank and up to 20,000 informal home-based establishments in Gaza.

31. **In many countries of the world, including some regional ecosystems, HBBs have widely spread over the past decade, especially among youth and women, where many are practicing business**

activities from their homes either formally or informally. To regulate this sector, many countries developed policies aimed at organizing home-based work in line with the related national objectives: (a) to combat unemployment and fight poverty and (b) to protect public interests such as security, health, and public safety. Providing an enabling environment for HBB lowers the barriers of entry for new businesses, lowers operating costs, and provides flexibility in time and resources to incubate a business model. By defining key parameters with respect to labor and safety (for example, maximum employee size, no toxic chemical use, and so on) ensures clarity for the HBB while protecting the character of the neighborhood. Having a recognized and defined HBB sector also allows the development of simplified regulations and procedures so that HBBs are not uncompetitively burdened with the same compliance costs as larger firms.

32. **A modern HBB framework in WB&G will**

(a) Enable startups to begin their projects with lower costs;

(b) Increase opportunities for startups and their success by reducing costs and procedures associated with practicing a profession;

(c) Contribute to reducing unemployment, especially among young people;

(d) Increase women's participation in the labor market;

(e) Empower people with special needs;

(f) Contribute to raising the standard of living of families; and

(g) Encourage and enable informal workers to work legally.

33. **An assessment of the HBBs in WB&G will be conducted**, **to support the MONE's efforts at developing an optimal framework**. This will include an analysis of the legislative and institutional framework, including the chain of constraints at different levels of government (municipal and national). Roundtables will be held to identify the binding constraints to HBBs, the promising activities within this sector, and the incentive mechanism that could be put in place for the formalization of these businesses. These roundtables will include participatory engagement of women's business associations involved in supporting HBBs, NGOs, and other relevant stakeholders engaged in supporting female livelihoods.

34. **The regulatory framework governing HBBs will be developed and amendments to existing regulations proposed**. The MONE will lead the Government's efforts among stakeholders to build consensus and pass the necessary regulatory reforms.

35. **Once the HBB framework and relevant regulations are approved, the project will support the implementation of the framework** and organize an awareness campaign across WB&G to familiarize entrepreneurs with the opportunities created by the new HBB framework; targeted initiatives such as training and infrastructure will be provided to support the growth of the sector.

36. **Climate co-benefits:** Once the HBB approach is a viable option, a reduction in daily commutes is expected, mitigating greenhouse gas emissions.

Component 2. Building an Outsourcing Hub in Gaza (US$2.95 million)

Activity 5: Developing the outsourcing model and piloting expansion of an existing organization in Gaza (US$2.95 million)

37. **Phase I: Operational and market assessment (6 months, US$0.25 million).**

(a) The PIA will bring on board experts to review GGateway's operations, and develop a 3-year road map for scaling the organization sustainably. The assessment will provide recommendations on enhancing GGateway's organizational structure, business operating model, curriculum and instructors, marketing and business development strategies, financial model, operating cost and projections, and investment needs for the next 3 years, and an IT system for facilitating internal and external transactions.

(b) The PIA will bring on board experts to conduct a market demand and supply assessment, including survey work, which will cover the following:

(i) Assess demand and supply for software services. This would entail identifying the demand for coding professionals in WB&G, outsourcing and freelancing opportunities over the next 3 years (with stratified prospective market segments), and potential target markets for Palestinian software developers.

(ii) Assess potential market size, and identify business development opportunities in software development and data management.

(iii) Identify the size of jobs available in Gaza, and potential opportunities to increase GGateway's placement rate.

(iv) Confirm the factors of competitiveness in WB&G in the development of software services, and data management; and provide benchmark with competitive countries.

(v) Identify GGateway's value proposition, assess current opportunities for software development and data management outsourcing services, and outline the main vertical services GGateway should focus on.

(vi) Identify opportunities for portal and consultancy opportunities.

(vii) Conduct surveys of potential clients in GCC and other potential markets (possibly the United States).

38. **Phase II: Implementation of pilot activities (3 years, US$2.35 million).** The second phase would support GGateway to implement the road-map of activities identified through Phase 1. The PIA will recruit experts experienced in managing similar organizations to consistently mentor and provide guidance to GGateway's staff and senior management in terms of optimizing its operations. The activities of this phase would include:

(a) **Organizational structure.** Support the implementation of a new organizational structure and provide details on key roles and responsibilities—including job descriptions.

(b) **Business model and budget.** Provide details on staffing needs, in line with the potential increase in demand; upgrade requirements in infrastructure (facilities, equipment, and so on); and core business verticals that GGateway would focus on.

(c) **Curriculum, instructors, and operations.** Improve the training curriculum and build the roster and capacity of instructors. This would entail helping GGateway

(i) Obtain a franchise/license to use best practice curriculum, used by leading outsourcing companies/coding schools;

(ii) Recruit and host three instructors from similar organizations to build the capacity of local staff;

(iii) Organize knowledge-transfer tours to similar organizations, such as Andela in Africa;

(iv) Obtain an enterprise resource planning system to ensure a good management and tracking of operations; and

(v) Develop an M&E framework for GGateway operations.

(d) **Promotion and business development.** Support GGateway to develop new business opportunities for GGateway's network (outsourcing house and local software companies) in local and international markets (e.g. GCC, United States). This would entail:

(i) Recruiting two business development experts, located, for example, in the GCC, for three years, and a third expert, located in the United States for one year (third year). The role of the experts is to develop a database of potential clients, identify sales leads, pitch GGateway's services to prospective clients, facilitate B2B connections, and manage consistent relationship with clients.

(ii) Establishing a back office, for example, in one of the GCC countries for three years, and back office in the United States in the third year. The offices will allow GGateway to be closer to clients and ensure a continuous flow of operation, in case of any disruption in Gaza.

(iii) Organizing networking events and three missions for GGateway's senior management to Saudi Arabia, United Arab Emirates, Bahrain, United States, or other countries, to promote their services and acquire new clients.

(iv) Developing GGateway brand and communication efforts.

39. **Phase III: Sustainability model development (6 months, US$0.15 million).** Support GGateway to put in place conditions for sustainability, by developing possible revenue stream options, activities, and connections with potential investors, along with IFC.

40. **Management Costs (US$0.20 million).** The PIA will cover relevant operational expenses and salaries of GGateway's project staff (US$200,000, approximately 7 percent of the component's budget).

Component 3. Project Management (US$1.65 million)

41. Component 3 will finance US$1.65 million in project management and capacity building. US$1.5 million will be for project management costs of the PIA including operating, technical, and M&E costs. The remaining US$0.15 million will finance capacity building for the MONE. The PIA shall be responsible for the day-to-day administration of the overall project planning, coordination, and technical and fiduciary supervision.

ANNEX 2: IMPLEMENTATION ARRANGEMENTS

COUNTRY : West Bank and Gaza
Innovative Private Sector Development

Institutional and Implementation Arrangements

1. **The development of the Palestinian entrepreneurship ecosystem needs a professional entity with extensive expertise in private sector development to tackle the binding constraints of the ecosystem.** MONE will conduct a competitive selection process for a PIA from the private sector. The PIA must have extensive experience in implementing similar private sector development projects. Candidates will be evaluated based on proposals submitted to the PA in the context of a competitive process, in which applicants will be required to demonstrate the qualifications and competence of key staff, adequacy of methodology in responding to the proposed assignment and direct experience specifically related to the assignment. All candidates must be highly professional with a presence in the field (i.e., an office) in both Ramallah and Gaza, in accordance with UN security directives.

2. **PIA Responsibility.** As a condition for project effectiveness, MONE must complete the selection of the PIA with the signing of the IA between these two parties with capacity, functions, staffing, and resources satisfactory to the World Bank. The PIA shall be responsible for the day-to-day administration of overall planning, coordination, technical, fiduciary, monitoring, evaluation, safeguards, reporting and communication of the activities under the IPSD, all in accordance with the provisions of the Grant Agreement, the Implementation Agreement and the POM. Detailed responsibilities of the PIA are included under the Grant Agreement and the POM.

3. **Institutional Arrangements:** The recipient of the project grant—the Palestine Liberation Organization—shall, through the PA, cause MONE to maintain overall responsibility for the IPSD project. An Advisory Committee, comprised of officials from MONE, the PA Ministry of Finance, and representatives of the private sector, will be established to provide strategic guidance to the PIA on implementation.

Financial Management

Implementing entity

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

Risk analysis

Fiduciary risks

5. The country-level fiduciary risk level in the PA system is rated High before mitigation. This is due mainly to the deterioration in the financial reporting of the PA and delays in the issuance of public sector

financial statements, as well as delayed implementation of the 2014 Public Procurement Law. The risk is mitigated by having a dedicated PIA which will have good capacity as well as close supervision by the team and regular audits. The project-level risk is rated Substantial and there will be mitigating measures in place to reduce the risk. The overall FM risk is rated Substantial and the procurement risk as stated in the following paragraphs is Substantial. The overall fiduciary risk is rated Substantial.

Project risks

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

(a) The political situation and restriction on access may affect physical and financial progress, which could also affect implementation support and verification of activities;

(b) The variety of components and the number of stakeholders that will be involved in the project;

(c) There will also be some work in Gaza (outsourcing hub as well as possible grants to startups) which carries an additional risk due to the political environment and the de facto Government as well as difficulty in providing close implementation support due to the restrictions on access and movement to Gaza; and

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

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

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

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

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

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

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

(f) Complete supporting documentation for each activity, including signed contracts, invoices, and other related supporting documents will be maintained by the PIA in an orderly manner, readily available for audit.

(g) Training and capacity-building activities will be provided by the World Bank team on FM and disbursement guidelines to all stakeholders as necessary.

Financial management system

8. **Flow of funds and banking arrangements.** World Bank financing will be a grant to be disbursed through a project-specific DA opened by the MOFP and operated by the PIA. The PIA will be assessed and an IA will be signed between the MONE and the PIA. The MOFP will open a DA denominated in U.S. dollars into which replenishments from World Bank resources will be transferred and will be used in financing IPSD components according to the approved budget.

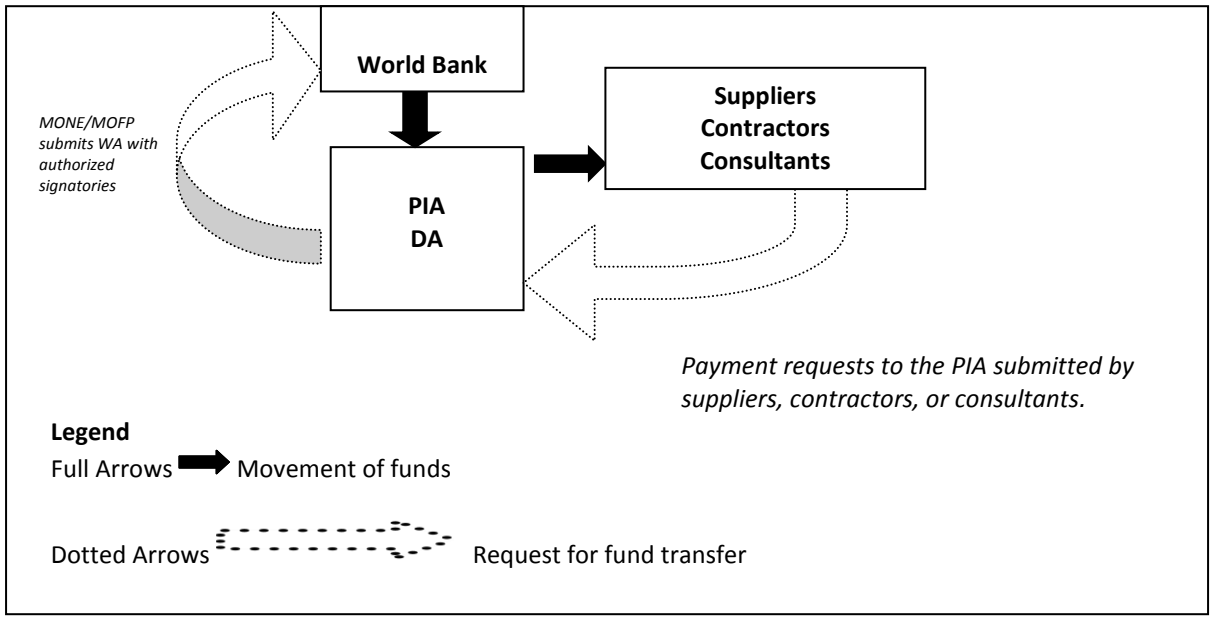
9. WAs submitted to the World Bank will be prepared by the PIA and signed by the authorized signatories at the MONE and the PIA before submission to the World Bank.

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

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

12. Figure 2.1 describes the funds flow for the IPSD.

Figure 2.1. Flow of Funds for the IPSD



13. **Information systems.** A computerized FM system should be in place and efficiently operational at the PIA before commencement of the IPSD. The FM system should be capable of producing timely, relevant, and reliable financial information that will enable the IPSD's management to plan, implement, monitor, and appraise overall progress toward achievement of its objectives. A new cost center will be opened in Bisan, the PA accounting system for the IPSD that will be used by the project counterpart at the MONE to periodically record all transactions as required by the Government system of accounting.

14. **Financial section of the POM.** MONE has prepared a detailed draft of the POM covering all administrative, financial and accounting, budgetary, and human resources procedures relevant to the additional activities to be financed under the IPSD. The POM describes the payment procedures, including controls and oversight arrangements.

15. **Staffing.** IPSD activities including FM will be handled by the PIA. The PIA will keep all accounting records and ensure all transactions are recorded. The project counterpart at the MONE will also assign an employee at the MONE to record all IPSD activities in the PA accounting system (Bisan). This can be done on a batch basis since the day-to-day accounting will be undertaken by the PIA.

16. **Financial reporting and monitoring.** The PIA will have overall responsibility for FM of the IPSD. Specifically, the PIA will be responsible for (a) consolidating the grant financial data; (b) preparing activity budgets (disbursement plan) quarterly as well as annually, monthly DA reconciliation statements, periodic Statements of Expenditure (SOEs), withdrawal schedules, quarterly IFRs, and annual financial statements; and (c) ensuring that the IPSD FM arrangements are acceptable to the PA and the World Bank.

17. The PIA will produce quarterly and annual reports as outlined in the following paragraphs and submit these to the project counterpart at the MONE. The project counterpart at the MONE will be responsible for all reports during the interim period. The MONE will then endorse and send them to the World Bank for monitoring project implementation.

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

(a) Financial reports include a statement showing for the period and cumulatively (project life or year-to-date) inflows by sources and outflows by main expenditure classifications, opening and closing cash balances of the IPSD, and supporting schedules comparing actual and planned expenditures with detailed deviation analysis between actual and budgeted figures;

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

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

Annual project financial statements (submitted within six months after year end)

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

(b) A Statement of Cash Position for IPSD funds from all sources

(c) Statements reconciling the balances on the various bank accounts (including the DA) to the bank balances shown in the Statement of Sources and Uses of Funds

(d) Notes to the financial statements for significant accounting policies and all other relevant information

18. **Accounting policies and procedures.** The IPSD 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 U.S. dollars.

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

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

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

22. The external auditor will be required to hire a technical auditor for any works undertaken by the IPSD under Component 3. The technical auditor will be required to track progress on a monthly basis and compare it to financial progress, as specified in the ToR.

23. **Implementation support.** World Bank FM supervision activities will include, but will not be limited to, review of SOEs, quarterly IFRs, and 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 the IPSD. World Bank supervision missions will consist of visits to the PIA and the project counterpart at the MONE and other stakeholders as necessary. Relevant documentation will be made readily available to World Bank supervision missions.

Disbursements

24. Disbursements from the World Bank will use the four traditional methods: Reimbursement, Advance, Direct Payment, and Special Commitment. Reimbursement and DA advance replenishment will follow the transaction-based method using SOEs for documenting paid eligible expenditures. Reimbursement, Direct Payments, and Special Commitment Issuance Applications can be accepted if the amount is above the 'Minimum Application Size' as specified in the Disbursement Letter.

25. The Trust Fund Grant will have a separate DA. Disbursements into the DA will be requested through WAs, reconciled bank statements, and copies of all bank statements. The supporting documentation for requests for direct payment should be records evidencing eligible expenditures (copies of receipt and suppliers' invoices).

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

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

Agreed actions

28. Actions listed in table 2.2 will be done before the first withdrawal request.

Table 2.2. Agreed Actions for the IPSD

1. FM Policies and Procedures Manual: The POM—including FM Policies and Procedures—has been completed in terms acceptable to the World Bank.
2. Project accounting system: Project counterpart at MONE to develop accounting books and the formatted IFRs. Format of IFRs has been agreed.
3. Budget: The PIA to prepare annual budget based on the Procurement Plan by effectiveness date.
4. Audit terms of reference: Project counterpart at the MONE to prepare and submit the terms of references of the auditor to the World Bank for clearance within three months of effectiveness.

Procurement

29. Procurement for the IPSD shall be carried out in accordance with the World Bank's Procurement Regulations for Investment Project Financing Borrowers, dated July 2016, revised in November 2017, and the Procurement Plan, approved by the World Bank. The 'Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants', dated October 15, 2006, revised in January 2011, and as of July 1, 2016, shall apply to the project.

30. MONE will competitively select a PIA from the private sector through a call-for-proposals process to carry out project implementation under an IA, subject to the World Bank's no-objection. The signing of the IA will be a condition for effectiveness. The PIA will be responsible for project procurement, FM, disbursement, and M&E in accordance with the signed IA and following the procedures to be outlined in the finalized POM. The PIA, which will house experienced procurement staff, will hold overall responsibility for procurement and will act as the World Bank's counterpart for all procurement aspects of the IPSD. Subject to the assessment of the PIA internal systems and procedures, procurement for the IPSD may follow well-established private sector procurement arrangements or commercial practices, if found acceptable to the World Bank, and which will be documented in the finalized POM.

31. In addition to its responsibility for directly carrying out procurement and managing contracts for various IPSD activities (selection of market access service providers, angel network building, investment readiness advisory services, online business registry, HBBs framework, project management, and so on), the PIA will oversee procurement to be carried out by recipients of Catalytic Funding Matching Grants as per the respective Matching Grant Agreement, or by GGateway as per the respective Management Agreement. For those, there will be two options: (a) the PIA carries out procurement for the benefit of the matching grant-recipient/GGateway and the PIA signs the contract with the supplier/consultant who would then deliver the goods/services to the matching grant-recipient/GGateway or (b) the matching grant-recipient/GGateway carries out procurement in accordance with the procedures to be outlined in the POM, signs the contract with the supplier/consultant, and receives the goods/services. The decision on whether to go for option (a) or (b) will depend on the capacity of the matching grant-recipient and the size/complexity of the procurement. The selected option will be agreed between the PIA and the matching grant-recipient/GGateway and documented in the respective agreement.

32. A procurement capacity and risk assessment of MONE was carried out as part of IPSD preparation. The assessment evaluated the institutional capacity of the MONE to implement procurement for similar projects. It evaluated procurement risks and made recommendations on mitigation measures for efficient procurement under the project. At the PA level, the enactment of the 2014 Public Procurement Law, which is consistent with international best practices, has brought substantial improvement to the legal framework for public procurement on aspects related to efficiency, transparency, accountability, and integrity; however, implementation of various provisions of the Public Procurement Law is still work-in-progress. The following paragraphs summarize the identified procurement risks and mitigation measures.

Procurement risks

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

(b) Delays may be experienced in appointing the PIA, thus causing delays in launching the implementation of project components.

(c) Procurement decision making and implementation may be challenged by the attendant technical complexity and capacity limitations in the targeted areas/fields.

(d) Procurement decisions may be manipulated resulting in funds being used for other than the intended purposes.

(e) Further deterioration of the political situation may limit competition and discourage participation by qualified international firms with specific expertise in the targeted fields, specifically for the PIA. It may also affect the PIA and the World Bank's ability to carry out fiduciary supervision, particularly in Gaza.

Mitigation measures

(a) A PIA would be recruited competitively by the MONE from the private sector under an IA and will be responsible for overall procurement implementation. Qualified procurement specialist(s) within the PIA team will be responsible for handling the procurement under the project.

(b) To ensure project readiness for implementation, the selection of the PIA shall be launched through the advertisement of a request for expressions of interest, based on terms of reference acceptable to the World Bank. The IA signature will be a condition of project effectiveness.

(c) A detailed POM has been prepared by MONE, outlining among other issues, procurement procedures applicable for various project components and activities. The POM will be updated by the PIA, with the World Bank's approval. The adoption of the finalized POM will be a condition for effectiveness.

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

(e) The World Bank team will maintain close follow-up and quality control of procurement/contract management matters during project supervision to ensure the efficiency of procurement decisions. Opportunities for using smart fiduciary will be explored.

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

33. The overall procurement risk rating for the project is Substantial. The World Bank prior review thresholds for Substantial risk rating projects are outlined in table 2.3. In addition to contracts estimated to fall above these threshold, all terms of reference for consultants' services contracts will be subject to prior review. In addition to prior review, the World Bank will carry out two supervision missions a year,

including one ex post procurement review that would cover at least 15 percent of the contracts awarded during the review period. The project procurement risk rating shall be updated based on the outcomes of the PIA procurement capacity and risk assessment, which will be carried out upon PIA selection.

Table 2.3. Procurement Prior Review Thresholds (US$, thousands)

Type of Procurement	Prior Review Threshold
Goods, IT, and non-consulting services	2,000
Consultants: firms	1,000
Consultants: individuals	300

34. The IPSD will finance procurement of goods, IT, non-consulting services, and consultants' services. MONE prepared an initial Procurement Plan—approved by the World Bank—for the first 18 months of project implementation. Once hired, the PIA will prepare a PPSD-short version, based on a market analysis which aims to determine the most appropriate procurement arrangements for the project. The PPSD will conclude with an updated Procurement Plan. The PIA will carry out procurement in accordance with the updated Procurement Plan, approved by the World Bank.

ANNEX 3: IMPLEMENTATION SUPPORT PLAN

COUNTRY : West Bank and Gaza
Innovative Private Sector Development

Implementation Support Plan and Resource Requirements

1. This implementation support plan (ISP) describes how the World Bank will support the implementation of the risk mitigation measures and provide the technical advice necessary to help the client achieve the PDO. It has been developed based on the nature of the project and its risk profile. The World Bank task team will bring expertise to advise on project activities. It will work closely with the PIA and key stakeholders to ensure project success. The team will conduct four implementation support visits on average per year to the WB&G, as well as ongoing dialogue through videoconferences, telephone, and email. A midterm review (MTR) mission will be fielded three years after the project has become effective. Should structural implementation challenges emerge before three years, the resolution of which would require in-depth analysis and restructuring then the MTR will take place accordingly.

2. In addition to implementation support visits and ongoing engagement, the World Bank project team will carefully monitor the progress of project implementation and achievement of results through formal and informal reporting channels. Formal reporting channels include ISRs, consultant deliverables, and results monitoring reports supplied by the PIA. Informal channels include interaction with direct beneficiaries of the project, reports from local media, and international assessments such as Doing Business indicators and country economic analysis.

3. The project team will also take a flexible approach to ensure that it meets client needs as circumstances evolve. The World Bank will continue a close policy dialogue with the PIA and the Government.

4. Project procurement and FM missions will be undertaken as part of periodic fiduciary support conducted concurrently across operations in the WB&G of all World Bank projects. An exception to the principle of autonomous supervision by the fiduciary specialists would be the MTR, implementation support missions, and Implementation Results and Completion Report, where it is likely that the entire World Bank project team will participate.

5. **M&E.** The World Bank will review the Results Framework submitted quarterly by the PIA during the supervision mission or as a desk review. The team leader will discuss the progress and deviations with the PIA to identify any areas where additional help from the World Bank is needed. The PIA and the World Bank will also use results data to build awareness of project results among key beneficiaries and counterparts. Beneficiary feedback will also feed into regular monitoring.

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

Table 3.1. Implementation Support Plan

Time	Focus	Skills Needed	Resource Estimate	Partner Role
First six months	Review of RFP and bidding documents for PIA selection, including evaluation criteria and selection report	Project Task Management Consultants and World Bank staff specialists in ecosystem development and business registration Procurement Specialist FM Specialist Safeguards Specialist	US$100,000	—
6–24 months	Support implementation of activities	Project Task Management Consultants and World Bank staff specialists in ecosystem development and business registration Procurement Specialist FM Specialist Safeguards Specialist	US$500,000	—
Other	General supervision	Project Task Management FM Specialist Procurement Specialist Legal	US$50,000	—

Table 3.2. Skill Mix Required

Skills Needed	Number of Staff Weeks	Number of Trips
Task Team leaders	18	6
Procurement Specialist	6	0
FM Specialist	6	0
Counsel	2	0
Operations Support	12	0
Safeguards Specialist	2	0
M&E Specialist	4	2
Entrepreneurship Specialists	10	6
Early-stage Finance Specialists	10	6

Skills Needed	Number of Staff Weeks	Number of Trips
Company Registration Specialists	8	6
IT Specialists	10	6
Education/Digital Skills Specialists	10	6
Outsourcing Specialists	10	6

ANNEX 4: RELEVANT RECENT DONOR ACTIVITIES IN THE WEST BANK AND GAZA

Project Name	Donor (s)	Budget (in US$ million)	Status of project	Implementing Agency (ies)	Beneficiaries
Small and Medium Enterprises	Italian Agency for Development Cooperation	29.5200	Current	MOFP	Small and medium enterprises
Start UP	Italian Agency for Development Cooperation	30.7500	Current	Palestinian Fund for Employment and Social Protection	Startups; Cooperatives; Farm businesses; Marginalized targets such as women and youth
Business Incubators in Gaza	EU	2.0295	Planned	Belgian Technical Cooperation; Leaders Organization; Spark; BS Europe	Business Incubators; MSMEs
Start-up Business Incubators in Palestine (BSIS)	EU	4.3050	Current	Birzeit University	Six incubators: Incubators in the World Bank Group including Jerusalem; Entrepreneurs at incubators and universities; 240 SMEs
Venture in Palestine with BZU	EU	—	Current	Leaders Organization	University students bringing forward business ideas; MSMEs
Social Enterprise Accelerator (SEA)	Olof Palme International Centre	0.1920	Current	Leaders Organization	Palestinian youth; Palestinian women; Palestinian social startups; Palestinian entrepreneurs
The Open Government Data Initiative (OGDI)	USAID	0.5150	Current	Leaders Organization	Public institutions and agencies; Palestinian entrepreneurs
FUEL IT - Women and Youth Empowerment,	Canadian Government	0.2070	Planned	Leaders Organization	Palestinian youth; Palestinian women;

Project Name	Donor (s)	Budget (in US$ million)	Status of project	Implementing Agency (ies)	Beneficiaries
Entrepreneurship and Employment in the West Bank and Gaza					Palestinian entrepreneurs; Palestinian startups;
Palestine Startup Support (PASS) Program	Korea International Cooperation Agency (KOICA)	2.1490	Planned	Leaders Organization	Palestinian entrepreneurs, youth, and women; Palestinian startups in incubation and acceleration phase; Palestinian universities and students
Fast Forward Accelerator	Skoll Foundation	0.2340	Current	Leaders Organization	Palestinian entrepreneurs, youth, and women; Tech startups
Compete	USAID	76.260	Current	DAI	Private sector (ag, stone, tourism, IT, garment, fishing)

Note: EU = European Union; USAID = U.S. Agency for International Development; DAI = Development Alternatives Inc.