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Report No: PAD734

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED GRANT

IN THE AMOUNT OF US$3 MILLION

FROM THE MIDDLE EAST AND NORTH AFRICA TRANSITION FUND

TO THE

HASHEMITE KINGDOM OF JORDAN

FOR A

ENHANCING GOVERNANCE AND STRENGTHENING THE REGULATORY AND INSTITUTIONAL FRAMEWORK FOR MICRO, SMALL AND MEDIUM ENTERPRISE DEVELOPMENT PROJECT

January 9, 2014

Finance and Private Sector Development Group
Middle East and North Africa Region

THE HASHEMITE KINGDOM OF JORDAN

Currency and Equivalent
(As of September 26, 2013)
Unit of Currency = Jordanian Dinar
US$1 = JD 0.709
JD 1 = US$1.41

Fiscal Year
January 1st – December 31st

ABBREVIATIONS AND ACRONYMS

AFESD	Arab Fund for Economic and Social Development
BDU	Business Development Unit
CBJ	Central Bank of Jordan
CGAP	Consultative Group to Assist the Poor
CPS	Country Partnership Strategy
DPL	Development Policy Loan
EBRD	European Bank for Reconstruction and Development
EDP	Executive Development Program
EIA	Environmental Impact Assessment
EIB	European Investment Bank
FDI	Foreign Direct Investment
FM	Financial Management
IBRD	International Bank for Reconstruction and Development
IFC	International Finance Corporation
GIZ	Gesellschaft für Internationale Zusammenarbeit
JD	Jordanian Dinar
IFRs	Interim Financial Reports
JEDCO	Jordan Enterprise Development Corporation
JLGC	Jordan Loan Guarantee Corporation
JLGF	Jordan Loan Guarantee Facility
MENA	Middle East and North Africa
MFIs	Microfinance Institutions
MOPIC	Ministry of Planning & International Cooperation
MSME	Micro, Small and Medium Enterprises
NBFI	Non-bank Financial Institutions
NCTBI	National Consortium for Technology & Business Incubation
NGO	Non-Governmental Organization
OPIC	US Overseas Private Investment Corporation
ORAF	Operational Risk Assessment Framework
USAID	United States Agency for International Development
WA	Withdrawal Applications

Regional Vice President:	Inger Andersen
Country Director:	Ferid Belhaj
Sector Director:	Loic Chiquier
Sector Manager:	Simon C. Bell
Task Team Leader:	Sahar Nasr

THE HASHEMITE KINGDOM OF JORDAN

ENHANCING GOVERNANCE AND STRENGTHENING THE REGULATORY AND INSTITUTIONAL FRAMEWORK FOR MICRO, SMALL AND MEDIUM ENTERPRISE DEVELOPMENT PROJECT

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THE HASHEMITE KINGDOM OF JORDAN

(P147875)

PROJECT APPRAISAL DOCUMENT

MIDDLE EAST AND NORTH AFRICA
MNSF1

Report No.:PAD734

Basic Information			
Project ID	Lending Instrument	EA Category	Team Leader
P147875	Investment Project Financing	C	Sahar Ahmed Nasr
Project Implementation Start Date		Project Implementation End Date	
March 1, 2014		February 28, 2018	
Expected Effectiveness Date		Expected Closing Date	
March 15, 2014		August 31, 2018	
Joint IFC	Joint Level		
Yes	Complementary or Interdependent project requiring active coordination		
Sector Manager	Sector Director	Country Director	Regional Vice President
Simon C. Bell	Loic Chiquier	Ferid Belhaj	Inger Andersen

Recipient: The Hashemite Kingdom of Jordan			
Responsible Agency: The Central Bank of Jordan			
Contact:	Dr. Maher Sheikh Hasan	Title:	Deputy Governor
Telephone No.:	+962-6-463-0301	Email:	Maher.Hasan@cbj.gov.jo

Project Financing Data(in USD Million)					
[]	Loan	[X]	Grant	[]	Other
[ ]	Credit	[ ]	Guarantee		

Total Project Cost:	3	Total Bank Financing:	
Total Cofinancing:	3	Financing Gap:	0.00

Financing Source	**Amount(in USD Million)**
Recipient	0.00
MENA Transition Fund -	3
Total	3

Expected Disbursements (in USD Million)						
Fiscal Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Annual	0.25	1.25	1.00	0.25	0.25	0
Cumulative	0.25	1.5	2.5	2.75	3	0

Proposed Development Objective(s)

The project development objective (PDO) is to enhance financial services and products and to strengthen financial protection mechanism for MSMEs, while enhancing governance.

Components

Component Name	Cost (USD Millions)
Strengthening credit guarantees schemes	1
Enhancing the consumer protection mechanism	1.2
Developing the Regulatory and Institutional Framework for Micro Finance Institutions and NBFIs.	0.8

Institutional Data

Sector Board

Financial Inclusion Practice

Sectors / Climate Change

Sector (Maximum 5 and total percent must equal 100)

Major Sector	Sector	percent	Adaptation Co-benefits percent	Mitigation Co-benefits percent
Finance	Microfinance	50		
Finance	SME Finance	50		
Total		100		

☑ I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.

Themes

Theme (Maximum 5 and total percent must equal 100)

Major theme	Theme	percent
Financial and private sector development	Micro, Small and Medium Enterprise support	60
Financial and private sector development	Other Financial Sector Development	40
Total		100

Compliance		
Policy		
Does the project depart from the CAS in content or in other significant respects?	Yes [ ]	No [X]
Does the project require any waivers of Bank policies?	Yes [ ]	No [X]
Have these been approved by Bank management?	Yes [ ]	No [X]
Is approval for any policy waiver sought from the Board?	Yes [ ]	No [X]
Does the project meet the Regional criteria for readiness for implementation?	Yes [X]	No [ ]

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

Legal Covenants

Name	**Recurrent**	**Due Date**	**Frequency**

Description of Covenant

Conditions

Name	**Type**
Article IV 4.01	Effectiveness

Description of Condition

a) The execution and delivery of this Agreement on behalf of Recipient have been duly authorized or ratified by all necessary government action.

b) The Subsidiary Agreement referred to in Section I.B of the Grant Agreement has been executed on behalf of the Recipient and the Project Implementing Entity.

Team Composition			
Bank Staff			
Name	**Title**	**Specialization**	**Unit**
Sahar Nasr	Task Team Leader, World Bank	Banking and MSME Finance	MNSF1
Hamad Alduwiri	Task Team Leader, AFESD	MSME Expert	AFESD, MSME Special Account Unit
Gabi Afram	Senior Financial Economist	Micro and SME Finance	SASFP
Sami Daamech	Senior Operation Officer	Operations	MNCKW
Alaa Abbassi	Senior Legal Advisor	Micro Finance Expert	CGAP
Nazaneen Ali	Senior Procurement Specialist	Procurement	MNAPC
Jad Mazahreh	Senior Financial Management Specialist	Financial Management	MNAFM
Steve Wan	Operations Analyst	Operations	MNSF1
Amira Zaky	Program Assistance	Administration	MNSF1
Tracy Hart	Senior Environmental Specialist	Environmental Safeguards	MNSSD
Hana Salah	Social Safeguard	Social Safeguards	MNSSO
Rosamund Grady	Senior Financial Specialist	Financial Specialist	FFIMS
Johanna Jaeger	Junior Professional Officer	Finance	FFIMS
Karim Badr	Financial Economist	Economics	MNSF1
Ghada Waheed Ismail	Finance and Private Sector Development Analyst	Finance	MNSF1
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Hermann Bender	Principal Operations Officer	Finance	CMEAF
Yara El-Abd	Research Assistant	Research	MNSF1
Akeel Mazhar	Research Assistant	Research	MNSF1
Maya Abi Karam	Senior Counsel	Legal	LEGAM
Marie Roger Augustin	Legal Analyst	Legal	LEGAM

I. STRATEGIC CONTEXT

A. Country Context

1. The regional turmoil has reduced short term growth prospects for Jordan through sharp declines in Foreign Direct Investments (FDI), tourist revenues, and to some extent remittances, while the import bill increased as a result of higher commodity prices, adversely affecting the economic environment. Jordan witnessed sluggish economic growth in the past few years that was marked by the start of the Syrian crisis. Growth in Gross Domestic Product (GDP) per capita averaged at 0.4 percent in years 2011 and 2012, while GDP growth recorded 2.6 percent in both years.

2. The fallout from the Syrian conflict next door, in terms of both inflow of refugees and trade disruptions, is causing new concerns. Almost half a million Syrian refugees have fled to Jordan, while tens of thousands are waiting for authorization to enter. This large number of refugees puts further pressure on the economy in a country with a population of 6.3 million, setting from high unemployment rates, and scarce resources. The humanitarian assistance to the refugees is estimated to reach 0.7 percent of the Jordanian GDP. The Syrian conflict has had an adverse effect on Jordanian employment, especially those working in smaller enterprises, due to lower wages paid to refugees. The weakening economy is further undermined by social challenges, including unemployment and poverty. Unemployment averaged 13 percent in the last decade, with youth unemployment over 30 percent. Female unemployment (19.9 percent) is almost double that of male unemployment (10.4 percent). Absolute poverty according to Jordan's 2012 Poverty Reduction Strategy is estimated at about 14.4 percent.

3. Hence, it is essential that Jordan promote sustainable and inclusive growth to reduce unemployment, especially among youth and women, as well as in geographically and economically marginalized areas. Job creation and economic inclusion are key priorities for Jordan today—these goals will be advanced by improving the financial system, enhancing competitiveness, promoting governance and transparency, and fostering sustainable private sector-led growth. The Government's Executive Development Program (EDP) for 2011–13, underscores the importance of private sector development for job creation, and overall economic inclusion through MSME development and attaining a well-developed and diversified financial system. Most recently the Jordanian authorities stressed the need to ensure that the dividends of economic reforms are shared equally and fairly across the country.

4. In that context, the proposed project: "Enhancing Governance and Strengthening the Regulatory and Institutional Framework for Micro, Small, and Medium Enterprise Development Project" aims at supporting the development of the institutional framework for microfinance and non-bank financial institutions (NBFIs), fostering consumer protection, and strengthening credit guarantee schemes, with the ultimate objective of improving micro, small, and medium enterprises (MSMEs) access to finance in a fair and competitive manner, while enhancing the governance and accountability. The project is in response to the request from the Central Bank of Jordan (CBJ), the project implementing entity, and a follow-up on the outcomes of the Arab Funds Coordination Group Meeting, which took place in Kuwait at the Arab Fund for Economic and Social Development (AFESD) on April 7, 2013. This project is done in partnership between the World Bank Group—Bank, International Financial Cooperation (IFC),

and Consultative Group to Assist the Poor (CGAP); and AFESD[1] to support the Jordanian authorities in developing the MSME sector.

5. The proposed project comes at an opportune time, due to several factors currently in play. There is strong commitment by the Government of Jordan, reflected in making MSMEs development a priority in the reform program, within the overall framework of creating sustainable private sector jobs, and promoting governance, confirming the country's ownership, as announced by the Jordanian delegation, headed by the Ministry of Planning and International Cooperation (MOPIC) at the Deauville Partnership meetings. Another factor is, the competent and reform-oriented leadership in CBJ, which is pushing for transformational, institutional and regulatory reforms aiming at enhancing financial inclusion, and the Minister of Planning and International Cooperation's commitment for well-coordinated efforts on that front. The rise in employment rates, especially among women and youth has been compounded by the influx of Syrian refugees, flagging the importance of supporting smaller and younger firms that are the main creators of new jobs through improving the financial institutional infrastructure. Given the overall situation in the region—the revolutions, unrest, and demonstrations, CBJ's initiative to promote financial inclusion, consumer protection (including addressing clients' grievances), and financial literacy, deserves support from development partners, offering international experiences, and in that spirit this project is proposed.

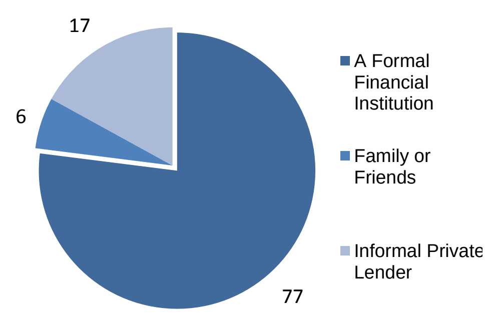
6. The project is also timely with regards to fostering partnerships and coordination among donors and stakeholders that are active in MSME development in Jordan, especially AFESD, which has been playing a pivotal role in promoting MSME development in the Arab countries. The project will complement the on-going and proposed lines of credit, which are supported by the Bank, AFESD, and the European Bank for Reconstruction and Development (EBRD), ensuring that these investment projects have a strong impact on the ground, reaching out to underserved areas and marginalized groups, in a fair, competitive, and transparent way, as well as adequately regulated and supervised to ensure compliance with prudential regulations and best practices, fostering financial inclusion.

B. Sectoral and Institutional Context

7. MSMEs today are positioned as the backbone and vanguard of the modern enterprise sector in Jordan. MSMEs are major contributors to the Jordanian economy and to its competitiveness, and employment potentials. There are around 150,000 registered enterprises in Jordan, of which MSMEs account for more than 99 percent. The majority of jobs are generated through MSMEs, which employ around 71 percent of private sector employees, where SMEs employ 32.7 percent and microenterprises 38.7 percent. This sector is also a leading source of exports and incomes in Jordan. It

Figure 1: Sources of Loans in Jordan (2013)

(Percent)



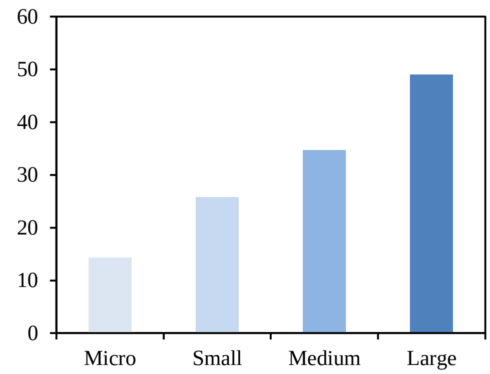
Source: Investment Climate Survey (2012).

[1]The MSME Arab Fund was launched at the Arab Economic and Social Summit held in Kuwait in January 2009, an initiative led by H.E. Amir of Kuwait to provide US$ 2 billion to support MSMEs development in the Arab countries. The number of participating countries reached 17 by July 2013 (with Saudi Arabia and Kuwait being the largest contributors, each US$ 500 million), of which US$ 940 million has been paid out of a total of pledged amount of US$ 1.2 billion. Loans approved as of July 2013, amount to US$ 333 million through 13 financial intermediaries and apex institutions, known for their active operations in the MSME sector.

is playing a key role in the shift to high-value growth sectors, initially through enterprise creation, and subsequently through providing services and inputs, and increasing productivity through adopting and applying innovations.

8. Financial depth is not fully reflected in an improvement in financial access. Loans-to-deposits ratio is 69 percent as of June 2013, reflecting the banks' conservative lending practices. Private sector credit-to-GDP is relatively low at 80 percent, which is largely allocated to large corporates (87 percent), often 'name lending'. Bank financing is relatively common for SMEs in Jordan, where banks are the principal source of external finance for SMEs. However, only 11 percent of bank lending goes to SMEs, compared to 25 percent in emerging markets. SMEs are undercapitalized and predominantly financed through internal funds, as well as, informal sources. Enterprises often resort to the informal sector, family and friends for access to finance (Figure 1). The 2012 Jordan Investment Climate Survey (ICS) shows the large disparities in terms of access to credit by size of firms. Only 27 percent of small firms have a loan versus 38 percent of medium-sized firms and 53 percent of large corporates (Figure 2).

Figure 2: Access to Bank Loans, by Firm Size

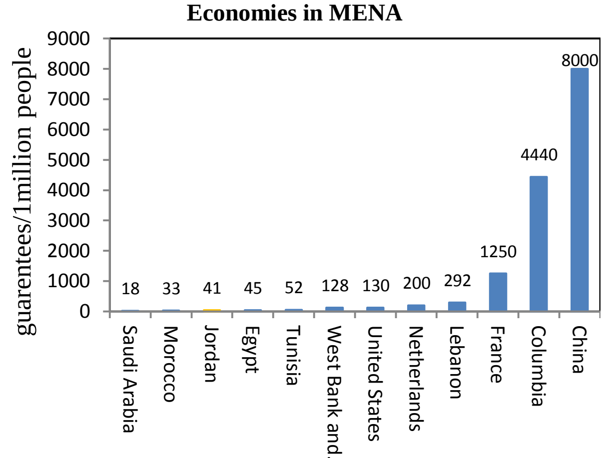


Source: Investment Climate Survey (2012).

9. High risk perception of MSMEs is one reason behind such low financial intermediation in Jordan. To mitigate the risk associated with MSMEs lending, banks rely primarily on collateral-based lending rather than creditworthiness, leaving creditworthy SMEs unfinanced. Most loans require collateral, equal to about 23 percent more than the loan value. Smaller enterprises do not have sufficient collaterals, and when they do, they are not registered, making foreclosure difficult if not impossible, representing a significant disincentive when lending to MSMEs. Incentivizing banks to lend on cash-flow bases rather than collateral-bases and to venture into relatively more risky financing to MSMEs could be addressed by strengthening credit guarantee schemes.

10. The credit guarantee schemes in Jordan are underdeveloped. In fact, Jordan is lagging behind many countries. The Jordan Loan Guarantee Corporate (JLGC) contribution to SME lending is currently low. In 2012, only 41 guarantees per one million people were issued (Figure 3). Many countries in the region have used state-owned banks, and partial credit guarantee schemes to increase lending to MSMEs, to tackle the weaknesses of the financial infrastructure. Countries with larger credit guarantee schemes have larger shares of loans to SMEs in total loans, and

Figure 3: Number of Guarantees per Year in Selected Economies in MENA



Source: World Bank (2012).

larger shares of investment lending to SMEs.[2] It is critical to strengthen the institutional capacity of JLGC to play a more instrumental role in enhancing access to finance. The JLGC's product offering needs to be improved and its systems modernized in order to enhance its effectiveness.

11. Enhancing access to financial information to MSMEs and protecting their financial rights to avoid being exploited are essential pillars in ameliorating MSMEs' access to finance. In order to ensure transparency and better informed decisions by MSMEs, banks and financial intermediaries should provide them with timely and accurate information about fees, and effective cost of borrowing. Improving flow of information is essential to foster competition in the sector in addition to decreasing the direct and indirect costs of borrowing for MSMEs (as well as consumers who acquire facilities for non-business purposes). A key aspect of financial inclusion entails protecting consumers and enhancing their knowledge about financial products and services. In that context, the CBJ issued on October 31, 2012, Instruction No. 56 of 2012, adopting the 'Treating Customers Fairly Instructions', which replaced the fragmented set of consumer protection rules scattered in different laws and circulars. This regulatory reform reveals CBJ's commitment to create a reliable and strong consumer protection system. It also flags the importance of disclosure, transparency and recourse system in protecting the rights of financial consumers.

12. The new instructions cover many important areas, such as fair treatment, responsible lending, complaints handling and recourse mechanisms. Moving forward, it is critical to ensure the banking system's compliance, and to also enforce these regulations on all financial institutions, including NBFIs. Currently, clients of these institutions are not protected and their only recourse mechanism is the lengthy, cumbersome, and expensive court system. The CBJ is planning to conduct a study regarding the feasibility and possibility of establishing a Consumer Protection Unit/Division to ensure compliance, and enforcement of financial consumer protection rules. This requires, among other things, staffing, tailoring an efficient complaint handling system, and building capacity to create a strong and efficient consumer protection team. The unit/ division will also work on promoting public awareness, fostering financial literacy.

13. The overall regulatory and institutional financial infrastructure in Jordan is not conducive to micro enterprises access to finance. Although microcredit is growing in Jordan, a stronger regulatory framework is required to allow for further outreach. Jordan has the highest microfinance coverage of its poor population in the Arab region. Growth of this sector, however, is still constrained by the lack of a supervisor and the consequent enabling microfinance regulatory and legal frameworks. The current framework, for example, does not force any specific legal form.[3] Some of these MFIs are even expanding lending to the small enterprises segment without being supervised by a regulatory body that monitors their compliance. Most MFIs are subject to little or no oversight, limiting their capacity to offer financial services. The current regulatory framework is unprepared to address non-prudential risks, such as over indebtedness. CBJ is not yet institutionally prepared but is keen on regulating and supervising the microfinance sector in order to create an enabling, and conducive business environment. As the support for regulation and supervision of microfinance institutions is covered by an EU programme implemented by GIZ, this project can provide the necessary

[2] World Bank Finance Flagship Report (2012).
[3] The largest MFIs in Jordan are registered as for-profit companies and nonprofit companies.

additional institutional support to establish the microfinance Division at the CBJ, finance staff positions, and provide the required equipment and infrastructure. Microfinance regulation is important for the protection of customers, and also essential for strengthening the sector and encouraging its growth in a prudent manner. The CBJ also acknowledges the fact that, besides MFIs, there are other NBFIs in the market that are engaged in financial services (e.g. consumer lending, investment funds and financial leasing) and operate without any specialized regulation or supervision. This would be an opportunity to assist the CBJ in adopting a more comprehensive approach of regulating and supervising NBFIs and not only MFIs for the same reasons and concerns mentioned earlier.

14. In that context, it is critical that the CBJ be provided with the sufficient technical assistance, and the required advisory services to support the execution of such an ambitious program, aiming at strengthening the regulatory and institutional financial infrastructure. These are transformational measures that CBJ is committed to pursue, and it would be important for development partners to provide the required know-how, and offer their knowledge and expertise, as well as share international best practices. This would ensure the efficient implementation of essential regulatory and institutional reforms, which would lead to a more inclusive system, catering all segments and serving MSMEs and other consumers, including those in marginalized groups and underserved areas. This will also enhance transparency, accountability, and governance of the sector.

C. Alignment with Transition Fund Objective

15. The proposed project is aligned with the overarching goals of the Transition Fund of strengthening governance and public institutions, fostering sustainable and inclusive growth by developing, and advancing country-owned programs through supporting transformational reforms. Specifically, it encompasses three of the four themes, namely: (i) investing in sustainable growth, which will be achieved by creating a more enabling and conducive business environment, through improving the regulatory and institutional, framework for micro finance, with the ultimate goal of enhancing access to finance; (ii) inclusive development and job creation, by addressing key challenges confronting SMEs that are main creators of private sector employment opportunities, through strengthening the credit guarantee schemes for SMEs, and expanding the outreach of services to underserved segments (women and youth), and to integrate lagging regions outside Amman, attaining a more inclusive system; and (iii) enhancing economic governance, which will be achieved by establishing a consumer complaint mechanism that will promote consumer protection, transparency, disclosure, and accountability in the financial system. Consistently, the project addresses two of the three pillars of the Deauville Partnership, namely finance and governance.

D. Higher Level Objectives to which the Project Contributes

16. The proposed project will contribute to transforming the underdeveloped MSMEs ecosystem to be more efficient, fair, transparent and prudently regulated, promoting a level playing field. It will enhance the accountability and governance of the system, while improving their access to financial services and products, as well as strengthening consumer protection, with the ultimate objective of sustainable private sector-led growth. The multifaceted project will contribute to leveraging funding for MSME finance in Jordan, and will address critical deficiencies in MSMEs financing in Jordan, including supporting the provision of credit guarantee scheme that will allow for risk sharing, incentivizing banks to lend to MSMEs.

17. At the same time, the consumer protection pillar will ensure better and fairer access to information and accountability to financial clients, especially the marginalized and small clients, who are not connected, nor privileged, and lack financial knowledge and expertise. In addition, strengthening the institutional framework for the implementation of the microfinance regulation will boost the sector's performance, encouraging its growth, and its outreach to underserved clients and Governorates.

18. **Relationship to Country Partnership Strategy**. The proposed project is closely aligned with the World Bank Group's Country Partnership Strategy (CPS) for Jordan FY2012-15 (Report No. 58114-JO), discussed by the Bank's Board of Executive Directors on January 24, 2012. The project addresses one of the key strategic objectives of the CPS, namely, strengthening the foundation for sustainable growth and job creation, with a focus on competitiveness through improving the business environment, strengthening governance, and removing obstacles confronting MSME development. This will be achieved through the developments envisioned under the project to the regulatory and institutional frameworks, which will contribute to creating a more conducive and supportive business environment for MSME development. The CPS also envisions improving access to finance for MSMEs as a priority, which the proposed project aims to accomplish through supporting regulatory or institutional reforms, namely those governing consumer protection, and microfinance, with special emphasis on underserved segments of society, including women and youth, as well as marginalized governorates and poor areas. In addition, the project is in alignment with MNA's regional strategic priorities and contributes to the MNA strategic pillars of enhancing economic governance, inclusive development and job creation, and investing in sustainable growth.

II. PROJECT DEVELOPMENT OBJECTIVE

A. Project Development Objectives

18. The project development objective (PDO) is to enhance financial services and products and to strengthen financial protection mechanism for MSMEs, while enhancing governance.

B. Project Beneficiaries

The direct project beneficiary would primarily be the CBJ in that the project will enable the central bank to: (i) support policy, legal and regulatory reforms to develop the micro finance, towards developing a comprehensive legal and regulatory framework for all NBFIs; (ii) create a reliable and strong consumer protection system; and (iii) enable JLGC to develop the JLGC loan guarantee or risk-sharing mechanism that can help compensate for the financial infrastructure deficiencies. The project will also benefit commercial banks, microfinance institutions and will also ensure gender mainstreaming throughout its three components with the aim to facilitate women's access to finance. (see Box 1, page 10).

C. PDO Level Results Indicators

19. Progress towards achieving the project's objectives will be measured by a series of quantitative and qualitative indicators at the PDO, and at the intermediate level (Results Framework is outlined in Annex 1). Key results and indicators at the PDO level, are: (i) number of microfinance loans after bringing the MFIs under the umbrella of CBJ; (ii) number of SME loans guaranteed by JLGC; and (iii) number of complaints resolved to the satisfaction of the consumer by the Consumer Protection Unit or division at CBJ within [30] days.

III. PROJECT DESCRIPTION

20. The proposed project comprises of three main components: (i) strengthening credit guarantees schemes; (ii) enhancing the consumer protection mechanism; and (iii) developing the regulatory and institutional framework for micro finance institutions and NBFIs. The total cost of the project is US$ 3 million.

A. Project Components

Component I: Strengthening Credit Guarantees Schemes (US$ 1 million)

21. This component aims at developing the JLGC SME loan guarantee products, and designing new ones that are tailored to SMEs, which are based on proper risk analysis, addressing moral hazard and adverse selection, with the objective of enhancing JLGC operations development and sustainability. This component will focus on assisting JLGC in strengthening its core internal capabilities, expanding its outreach and increasing the impact of its products, especially those targeting SMEs with a focus on marginalized groups, including women and underserved areas. At the same time, it will support JLGC in designing a guarantee product for micro-lending. Strengthening the credit guarantee mechanism will enhance MSMEs access to finance.

22. It also aims at enhancing JLGC's internal capabilities to execute the transformation agenda. This component is comprised of seven sub-components, as follows: (i) market research; (ii) risk management; (iii) product development (segmentation and delivery mechanism included); (iv) marketing and outreach;(v) payment rules;(vi) analytics and systems; and (vii) organization and human resources. In order to execute the change initiatives and achieve scale, sustainability and efficiency, the following are the additional areas where support is requested by JLGC:

i. ***Organization and Human Resources.*** There are significant gaps that need to be addressed for the JLGC to gain required competencies and enhance chances for the successful implementation of the change initiatives, as follows:

- **People Expertise.** JLGC does not have the required internal management expertise in the areas of: (i) product and business development; (ii) risk management; (iii) marketing and outreach; and (iv) payment rules. In this respect JLGC plans to recruit:(i) a risk management resident advisor to implement and manage the risk framework transformation and reform the payment rules; (ii) a product and business development resident advisor to help launch new products and revamp the existing ones, as well as oversee execution of strategic enablers; (iii) a marketing resident advisor to focus on market coverage, strengthening relationships with Partner Institutions and ensure growth in the volume of guarantees and help refine it. These three resident advisors would be employed over the project lifecycle of four years in order to execute and institutionalize the acquired core competencies so that the targeted outreach and impact can be achieved. In addition these resident advisors would train JLGC staff and improve their technical know-how for changes to be sustained. The total cost of these three advisors over the four year period is estimated at US$ 0.54 million.

- **Knowledge.** JLGC will significantly benefit by learning from best practice guarantee schemes around the world. This would also help avoid typical pitfalls, fast track launch of initiatives and would increase chances of success. Some of the guarantee schemes have achieved success such as Kafalat (Lebanon); Small Business Finance Program (Canada); FOGAPE (Chile); OSEO (France); and KODIT (Korea). Hence JLGC can benefit from Study tours to best practice credit guarantee institutions in four different countries to emulate these best practices and continually refine the building blocks. The estimated cost of the four study tours (one study tour planned per year) is anticipated at US$ 0.11 million.

- **Capacity building for banks.** There is also a need to build frontline people capacity at banks through training so that the banks are able to understand, bundle and sell the products and schemes that would be launched by JLGC. In this respect JLGC would need to build a training curriculum in order to train and certify relationship managers and team leaders at banks. The cost of building such training curriculum is estimated at US$ 0.05 million.

ii. ***Analytics and systems*****.** There is a significant need for JLGC to: (i) implement an Enterprise Resource Planning (ERP) system; (ii) enhance data warehousing and analytics generating systems; (iii) improve Management Information System (MIS) mechanism through technology based tools and systemized monitoring; (iv) increases process automation and building interfaces with banks; and (v) acquire hardware and software to support all the growth initiatives. This is another significant area of capacity building and is estimated to cost US$ 0.3 million.

Component II: Enhancing the Consumer Protection Mechanism (US$ 1.2 million)

23. This component aims at providing a supervisory and a complaint resolution structure to support a reliable and strong consumer protection system, and at promoting financial literacy in Jordan, which highlights the importance of disclosure, transparency and recourse system in protecting the rights of financial consumers. The objective is to operationalize the Treating Customers Fairly, CBJ Instructions No. 56 of 2012, which aims at promoting financial inclusion and consumer protection. The project will support the establishment of the Consumer Protection Unit or division at CBJ, as well as build its capacity to perform its mandate in terms of ensuring financial intermediaries comply, with these instructions, and empowering the unit or division to enforce such instructions, as well as provide a complaint resolution service for MSMEs and other consumers of financial products and services. This component aims to guarantee that MSME clients are receiving timely and appropriate information, and adequate service. It will also ensure that they are not subjected to improper behavior or corruption practices, and that financial intermediaries do not create unnecessary hurdles or discrimination. Furthermore, it will improve transparency, accountability and governance, and will seek to prevent abuse of the illiterate segment of the population, especially in the marginalized areas.

24. This will be delivered through: (i) supporting the establishment of a Consumer Protection Unit or division at CBJ to supervise compliance with consumer protection regulations (including the new Treating Customers Fairly Instructions) and to handle complaints. This will be done by conducting an assessment of the capacity building, training and resource requirements for the Unit or division and assisting CBJ in the development of approaches to fulfill these requirements; (ii) providing capacity building to CBJ to undertake these functions,

including financing IT equipment (both software and hardware). This will help CBJ to establish appropriate on-site and off-site monitoring systems and procedures, advice on enforcement mechanisms and training on how to use consumer research on a regular basis, and on how to identify financial inclusion barriers created by some financial institutions (such as minimum balance amounts for opening a bank account). The techniques to be included in this training could include surveys, qualitative research (focus groups), mystery shopping, and analysis of complaints data.

25. Furthermore, this component will finance the development of financial literacy programs through public awareness campaign and media programs on issues such as the legal rights of clients, understanding different financial products offered in the market and complaint resolution. This component could also include advising CBJ on the Treating Customers Fairly Instructions and related laws, including on any changes which may be considered necessary to fulfill the objectives outlined above; and (iii) conducting two study tours for senior officers of the new Consumer Protection Unit or division (once it is established) to countries which have well developed systems for financial consumer protection regulation and supervision.

26. Establishing the Consumer Protection Unit/Division will enable it to enforce the following disclosure and accountability requirements reflected in the Treating Customers Fairly Instructions, which include (in summary): (i) mandatory plain-language disclosures of all key prices, terms, and conditions; (ii) requirement that all key information be stated in the contract; (iii) the required disclosure of an effective annual percentage rate (which analytical work has shown to be more comprehensible for many consumers including those with lower levels of education and financial sophistication); (iv) the specific requirements that no additional fees can be charged beyond those that are disclosed; and (v) the requirement that the difference between fixed and variable interest rates is explained clearly to the customer up-front and is based on observable benchmarks in the market.

Component III: Developing the Regulatory and Institutional Framework for Micro Finance Institutions and NBFIs. (US$ 0.8 million)

27. This component aims at supporting policy and regulatory reforms to develop the NBFI and micro finance sector. Recognizing the importance of its role as a financial regulator and supervisor, for not only banks but also for NBFIs, CBJ is taking serious steps towards regulating and supervising the microfinance sector. This would entail setting a regulatory framework that is conducive to micro finance and NBFIs, as well as, institutional reforms that would allow CBJ to undertake such mandate. In addition, it would also cover IT, both software and hardware, strengthening the institutional infrastructure.

28. The project will also support the CBJ in gathering all available data about all NBFIs in the market that are engaged in financial services (e.g. consumer lending, unregulated investment funds, factoring, and financial leasing) and operate without any specialized regulation or supervision, to identify the risks and issues that need to be covered and assist the CBJ in adopting a more comprehensive approach of regulating and supervising NBFIs, and not only MFIs. This will include a comprehensive market study, technical assistance in drafting any needed regulation and building the capacity and training of the staff in charge of supervising these institutions.

29. The upcoming regulations that will be supported by the EU Programme would move the microfinance sector under the regulatory and supervisory umbrella of the CBJ, and depending

on further judgments based on a NBFI market study, there are plans to also include all NBFIs at a later stage. It will comprise of light prudential rules with a focus on consumer protection, fit and proper requirements, strong governance rules, risk management and internal and external controls. The regulation would also adopt general definitions for microfinance, and for the permitted financial services. The project will support CBJ in establishing, staffing and equipping a Microfinance Division within the Banking Supervision Department, which would be responsible for enforcing rules, ensuring compliance with the regulations, and supervising MFIs.

30. ***Gender mainstreaming.*** The project will also ensure gender mainstreaming throughout its three components (Box 1). Enhancing the financial consumer protection mechanism will ensure that female clients' rights are protected and that no discriminatory practices take place. Furthermore, strengthening the credit guarantee schemes will promote gender inclusion by encouraging banks to participate in more SME lending to women. Finally, by promoting a supportive regulatory and institutional framework, the project will facilitate women's access to finance and encourage them to tap into the formal financial sector.

Box 1: Gender Mainstreaming the Financial Institutioinal Infrastructure

The female labor force participation rate in Jordan is among the lowest in the region and in the world, at around 15 percent as of June 2013. In response, the Government of Jordan, is focusing on addressing gender disparities, and on increasing female employment opportunities, through targeting micro-finance programs towards unskilled and semi-skilled females, as well as mainstreaming gender in SMEs development. The Jordanian authorities also recognize the need to provide complementary services that would enhance their access,.

The proposed project will promote a supportive regulatory, legal, and institutional framework with a focus on gender mainstreaming, which will facilitate women's access to finance and spur the expansion and growth of female-owned MSMEs. This will encourage women to tap into the formal financial sector for sustainability, rather than relying on family and friends.

By enhancing consumer protection, the project will ensure fair treatment of women, and protect them from gender discrimination, by provinding a mechanism through which they can report any grievances or complaints. In addition, strengthening the credit guarantee schemes will enhance gender inclusion by encouraging banks to participate in more SME lending to women, who are often perceived as more risky than men, although they have better than average repayment. Strengthening consumer protection will address one of the main challenges women often face being legally-liable for a loan borrowed under their names, but effectively managed by a male guardian, in order for banks to meet their gender quotas. JLGC will also be incentivised to monitor gender disaggregated data, and to ensure a minimum percentge of credit guarantess are provided to women entrepeuners.

B. Project Cost and Financing

31. The proposed project is an Investment Project Financing in the amount of US$ 3 million which will be financed through the MENA Transition Fund. The project cost and financing are outlined in Table 1.

Table 1: Project Cost and Financing

Project Components	Project Cost (US$ millions)	MENA Transition Fund (US$ millions)	Financing %
1. **Strengthening Credit Guarantees Schemes**	**1**	**1**	**100**
(a) Organization and human resources	0.7		
(b) Analytics and systems	0.3		**100**
2.**Enhancing the Consumer Protection Mechanism**	**1.2**	**1.2**	
(a) Establishing Consumer Protection Unit/Division at CBJ(including IT)	0.1		
(b) Two study tours on responsible finance and financial consumer protection(after the establishment of CPU)	0.15		
(c)Building the capacity and training of Consumer Protection Unit staff	0.50		
(d) Promoting financial literacy	0.45		
3. Supporting the development of the institutional framework for microfinance and non-bank financial institutions (NBFIs) supervision	**0.8**	**0.8**	**100**
(a) Technical assistance to CBJ	0.25		
(b) Support CBJ in establishing the Unit (including staff and IT)	0.55		
Total Baseline Costs	**3**	**3**	**100**
Physical contingencies			
Price contingencies			
Total Project Costs	**3**	**3**	**100**
Interest During Implementation			
Front-End Fees			
Total Financing Required	**3**	**3**	**100**

C. Analytical Underpinnings and Lessons Learned and Reflected in the Project Design

32. The Project design fully reflects lessons learnt from recent, ongoing, and completed World Bank Group activities, as well as, donor projects, and international best practice in the MSME finance area. This includes lessons learnt from similar operations in Egypt, Tunisia, Morocco, India, and other developing and emerging economies. Key lessons learned are as follows:

33. ***Ensuring entity's accountability and strong management is essential for the successful execution of the project***. CBJ is a prominent and credible institution with a competent board, strong management capacity, market knowledge and a good governance structure and as such, has been assigned a clear responsibility for project implementation. The Government with the support of the development partners is providing training to further build the capacity of management and staff.

34. ***Effective donor coordination is a key requirement to ensure synergies in approach and guidelines and for the success of project implementation.*** This project is done in partnership between the World Bank Group—Bank, IFC, and CGAP, and AFESD, and will be implemented

in coordination with complementary donor projects to take advantage of synergies between different donor-funded activities.

35. ***Adequate supervision of the project should include clearly defined and transparent indicators for monitoring implementation progress and measuring overall impact***. Clear project indicators have been defined in the Results Framework. Monitoring will be an important aspect of the project. The regular monitoring indicators will help serve as an early warning system indicating the potential need for any modifications. Most important it will push forward the legal and regulatory reforms, with the clear timeline and the prioritization of tasks.

36. ***Incorporating gender mainstreaming features is essential to ensure inclusiveness and effective targeting***. The design of gender mainstreaming in the project has tapped on the recommendations put forward by the 2012 World Development Report, Gender Equality and Development, which highlights the importance of providing women with appropriate and timely information, their legal rights and obligations in dealing with the financial system. Accordingly, the Consumer Protection Unit or division supported under the project, will ensure disclosure and accountability, protecting women from discrimination, and ensuring their rights are preserved.

D. Links with other World Bank Group Activities

37. The proposed Project complements on-going World Bank Group activities, including IBRD policy lending, advisory services and technical assistance under the World Bank-IFC MENA Regional MSME Technical Assistance Facility (MENA MSME TA Facility), as well as CGAP technical support. It also complements work that has been led by AFESD in the numerous Arab countries, focusing on enhancing the provision of finance to MSMEs through central banks and apex institutions. These activities are mutually reinforcing, and ensure more effective results on the ground.

38. ***Lending.*** The proposed project will complement the ongoing World Bank Group's US$ 70 million MSME Development for Inclusive Growth Project to Jordan (P132314), approved by the Board of Executive Directors on March 5, 2013 aims to enhance the role of financial institutions in economic growth through financing and developing the MSME sector in Jordan. The MSME Development for Inclusive Growth Project is a line of credit to banks through CBJ to finance MSME lending, aiming at addressing the liquidity problem, which is especially affecting MSMEs access to finance. On the other hand, the proposed project will address the major deficiencies in the financial infrastructure, which will not only lead to enhancing access to MSMES, but will also attain a fair and more transparent system. The proposed project will ensure effective implementation of the line of credit with all the advisory services and capacity building provided to CBJ, the same implementing entity. Therefore, they are complementary projects with mutually reinforcing activities that will ensure better impact on the ground. They address two different challenges--liquidity issues, and the guarantee schemes which address the issue of risk. This project aims at strengthening the credit guarantee schemes for MSMEs, to help JLGC offer products that cater to MSME lending to reduce the risks of banks' lending to this sector that is considered more risky.

39. In addition, the first programmatic Development Policy Loan (DPL)[4] (P124441) for Jordan supports practices that aim at promoting private-sector driven growth. One of the policy

[4] The first DPL was approved by the Board on January 24, 2012.

measures was the credit information system through the establishment of the first credit bureau in Jordan.[5] This policy reform complements the proposed Project, by providing timely and accurate information on client creditworthiness necessary for financial institutions to lend to enterprises that may not have land or property to offer as collateral, but are otherwise creditworthy, addressing another constraint confronting MSMEs.

40. ***World Bank-IFC MENA Regional MSME Technical Assistance Facility.*** The proposed project will be complementing the joint World Bank-IFC MSME Regional TA Facility (a multi-donor Trust Fund), which focuses on four main areas, namely: (i) supporting CBJ in establishing the first private credit bureau; (ii) conducting an assessment to JLGC in expanding its outreach and increase the impact of its SME-related products;(iii) setting-up and providing capacity building for Business Development Units (BDUs) to be established in the different governorates by the Jordan Enterprise Development Corporation (JEDCO); and (iv) providing advisory services to financial institutions that serve MSMEs to attain a more inclusive system, specifically providing capacity building of banks' CEOs with a focus on risk management and strengthening the corporate governance of banks.

41. The project will build on activities undertaken under the MENA TA Facility, such as the diagnostic assessment of JLGC, and provide financing for the implementation of reforms, which is not covered by the Facility due to limited funds available. The MENA Facility amounts to US$ 23.6 million to seven countries, over a five year period, in addition to regional activities. Accordingly, there is approximately US$1.4 million allocated to each country and hence, the amount allocated to Jordan is not sufficient to proceed with CBJ's ambitious reforms. Moreover, as a client-executed project, this Transition Fund project will further complement the MENA MSME TA Facility, in terms of fostering home-grown country-led reforms, which will ensure sustainability, ownership, as well as capacity building of public entities.

42. ***InfoDev technical assistance.*** *Info*Dev are working on designing and executing an intervention focused on enabling the growth of small—but high growth potential—enterprises. This intervention will strengthen and scale entrepreneur networks and incubator-type services to link entrepreneurs to markets and appropriate finance, build financial management and marketing capabilities, and enable product, process, and business model innovation.

43. ***CGAP Advisory Services.*** CGAP has been providing advisory services to the CBJ on their "Treating Customers Fairly Instructions", which were issued on October 31, 2012. Moreover, CGAP supported the Ministry of Planning and International Cooperation to develop the first Microfinance National Strategy. Diagnostic works were conducted by CGAP, which put forward recommendations on means of improving the microfinance regulatory framework in Jordan.

44. Hence, this project should be seen as part of a package of parallel assistance that helps to strengthen the legal and regulatory framework and complements the line of credit provided by the MSMEs Development for Inclusive Growth Project. Such a design is in line with what has been done in other countries and is considered to be a technically-sound all-inclusive package of assistance to address this issue. The technical assistance provided will complement and not duplicate the activities supported by other donors.

[5] The first credit information bureau license is expected to be awarded by December 2013.

E. Collaboration with Development Partners

45. The team has been coordinating and undertaking consultations with other donors active in MSME development in Jordan, including USAID, GIZ, EIB, DFID,SECO, OPIC, and EBRD. In addition to the monthly MSME Donors Meeting, the team has been working closely with other donors to ensure the most effective use of resources and coordination of efforts.

46. AFESD has been supporting the Government of Jordan in the development of MSMEs over the past years. Recently, there are two key operations. The first was supporting the Employment and Development Fund, the apex institution in Jordan (US$ 70 million), with the objective of supporting the micro finance sector. More recently, a new project has been negotiated with CBJ, which is a line of credit amounting to US$ 50 million to support MSMEs access to finance during the transition period to support the creation of private-sector jobs. CBJ is currently finalizing another project with the EBRD, amounting to US$ 100 million, comprising of two components, a line of credit and credit guarantee scheme.

47. The Government of Jordan reached an agreement with the US Overseas Private Investment Corporation (OPIC) for setting up a US$ 250 million partial credit guarantee fund, which was signed in October 2011. The fund provided 60 percent, 75 percent credit guarantee coverage to new SME loans extended by participating banks, provided the collateral requirement by the banks is restricted to 30 percent of the value of the loan. This guarantee is being administered by the Cooperative Housing Foundation (CHF) under the name of the Jordan Loan Guarantee Facility (JLGF).

48. GIZ has been working closely with the Ministry of Planning and International Cooperation, as well as CBJ on providing support and advisory services in many key areas including, (i) Planning to help CBJ in developing a National Financial Inclusion Strategy; (ii) training and institutional development to enhance MFI supervision; (iii) promoting supportive industry infrastructure; (iv) spurring market expansion and innovation; and (v) ensuring sustainable funding for the microfinance sector. GIZ arranged a study tour in late 2013 on responsible finance and financial consumer protection to Germany with representatives from the MENA region, including four staff members from CBJ. GIZ will be working jointly with the World Bank Group in supporting the CBJ in setting the legal and regulatory framework for the microfinance sector and in fostering consumer protection.

49. The project will also be carried out in coordination with the Jordan's SME Growth Project, financed by the Transition Fund, which is implemented by Jordan Enterprise Development Corporation (JEDCO), to support and sustain startups and SMEs, which addresses the demand-side challenges and, hence complements this project that address the supply-side with respect to access to finance. The project with JEDCO includes: (i) identifying, diagnosing and recruiting startups and SMEs with growth potential motivated; (ii) providing and training internationally recognized and accredited, monitored and specialized business coaching service providers in areas of sustainable growth, productivity enhancement and competitiveness, technology, innovation and exports development; (iii) exclusively select and support high-growth companies, by implementing an advanced intensive coaching, training, certifications and grant contribution Accelerator Program; (iv) establishing a Startups and MSMEs Growth Observatory at JEDCO; and (v) providing a positive, supported and credible deal flow to existing and future new Funds and/or other investors. Overall, the project team will ensure effective coordination with all donors active in MSMEs development in Jordan to ensure synergy, no duplication of efforts for effective use of resources.

F. Stakeholders' Consultation

51. Stakeholders would comprise of the relevant government agencies including CBJ, the Ministry of Planning and International Cooperation, and financial institutions (banks and NGOs-MFIs); JBA, and JLGC, MSMEs and other donors who are actively involved in the development of the MSME sector. Throughout the project preparation phase, CBJ discussed with all relevant stakeholders the design and details of the proposed project. The consultations with numerous stakeholders will continue throughout project implementation to ensure their buy-in and ownership.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

52. The methodology to be adopted by this project will seek to integrate established evidence-based diagnostic work conducted by the World Bank Group—WB, IFC and CGAP, and the German Cooperation, implemented by GIZ, with a robust stakeholder engagement, and effective coordination with development partners. The project would follow the World Bank guidelines related to procurement, financial management, and social and environmental safeguards.

53. CBJ is the implementing agency for the Project and will be responsible for overall coordination and management. The CBJ was selected as the implementing agency because it is the entity responsible for regulating and supervising the Banking Sector in Jordan. The CBJ also holds majority ownership of JLGC, which is chaired by the Deputy Governor of CBJ. This will ensure synergy and effective coordination of all activities covered by each of the project components. CBJ will work closely with the National Microfinance Committee to ensure effective coordination between different market players and stakeholders of MSME sector.

54. CBJ is ready to implement the proposed project and will help accelerate its reform program. The MENA Facility has been investing in the capacity building of CBJ, and the project comes at an opportune time where the leadership of CBJ is pushing for transformational and regulatory reforms

55. The Banking supervision Department at the CBJ will oversee and manage this project. The Banking Supervision Department's mandate will be to implement policies and procedures outlined in this document and will report directly to the Deputy Governor. The Banking Supervision Department may hire additional experts to help in the two components of the project, including experts on microfinance supervision, consumer protection, etc. Moreover JLGC will implement the policies and procedures outlined in this document with regards to the first component of the grant. The Financial Department in CBJ will be responsible for procurement procedures.

56. The CBJ has prepared an Operational Manual with guidance from the World Bank, which included financial management and procurement arrangements and described the roles and responsibilities for project implementation, the institutional and implementation arrangements safeguards and disbursement..

57. The World Bank will provide implementation support to the project and the AFESD will participate in missions for coordination of this activity with other related activities. Components are distributed based on expertise, comparative advantage and previous engagement; hence IFC will work closely with the Bank on the first component - strengthening credit guarantees

schemes; GIZ will coordinate the second component on enhancing the consumer protection mechanism and the third component, developing the regulatory and institutional framework for micro finance institutions and NBFIs. However, team members and experts from each institution will contribute and provide support wherever necessary based on required knowledge and expertise. To ensure effective coordination and implementation on the ground, periodic joint supervision missions will be led by the Bank and AFESD, with the active participation of IFC, CGAP and GIZ. These will take place at least once every six months. A core team member is located in the World Bank's Kuwait Office to ensure effective coordination with the AFESD, and three core Team members from the Bank, IFC, and CGAP will be located in the field.

B. Results Monitoring and Evaluation

58. A robust system to monitor and evaluate progress is crucial to the project success, and will be implemented based on the agreed results framework, monitoring arrangements and indicators. A strong M&E framework to track inputs, outputs, and outcomes in a systematic and timely fashion has been discussed and agreed to with CBJ. M&E will be based on clearly identified benchmarks and output indicators that feed into the project indicators(Annex 1).

C. Sustainability

59. Key elements in the sustainability of the proposed project include CBJ's successful implementation of the project, the Government's strong commitment to sound financial policy, increasing access to finance reflected in making MSMEs development a priority in the reform program, and the commitment to reform and improve the legal and institutional capacity of the MSMEs.

60. Project sustainability will be facilitated by the strong partnership established between the World Bank and the Jordanian authorities over the past years through an integrated work program, reflected in an effective policy dialogue, analytical work, technical assistance, and key operation. The World Bank team has had a strong and professional policy dialogue with CBJ, as well as the Ministry of Planning and International Cooperation and Ministry of Finance, where commitment to financial sector reform was evident.

61. Moreover, The Bank and IFC will provide technical assistance to the CBJ through the MENA TA Facility leading to enhancing the outcome and the impact of the proposed project.

I. KEY RISKS AND MITIGATION MEASURES

A. Risk Ratings Summary

Risk Category	**Rating**	**Risk**	**Rating**
Stakeholder Risk	M	**Project Risks**	
Implementing Agency Risk		- Design	M
- Capacity	M	- Social and Environmental	L
- Governance	L	- Program and Donor	M
-		- Delivery Monitoring and Sustainability	H
		Overall Implementation Risk	M

B. Overall Risk Rating Explanation

62. The overall project risk at implementation is Moderate. The project could be confronted with various risks at the stakeholders', operating environment, implementation, and sustainability levels. These risks were carefully analyzed and mitigation measures were identified. The mitigating measures are detailed in the Operational Risk Assessment Framework (ORAF) in Annex 4.

63. Project stakeholder risks include risks that could come from a delay or reversal of policy commitment to enhance access of MSMEs to finance, the large number of donors and development agencies that are working on financial inclusion in Jordan which could result in lack of coordination. Project risks include risks associated with project design, such as the risk of lack of expertise on relevant technical subjects, time needed to digest new concepts, and reaching consensus on changes, all of which may significantly delay project implementation. This would be addressed through the limited number of components and the duration of the project (four years), which allows for sufficient time for effective and smooth implementation.

64. As for the social and environmental risks there are no major social or environmental concerns, because the proposed project activities are limited to advisory services and technical assistance. This is a TA project with a Category C Safeguards rating. Another risk is that planned technical assistance activities may be limited in scope if sufficient donor funding is not raised, but there is also the risk of duplication of donors' efforts if there is a lack of coordination among development partners. Means of mitigating these risks are outlined in Annex 4.

V. APPRAISAL SUMMARY

A. Economic and Financial Analyses

1. Project Development Impact

65. The proposed project will foster a more efficient system for MSMEs in Jordan through regulatory and institutional reforms that are transformational in terms of not only enhancing access to MSMEs, but also attaining a fair and more transparent system. This would be achieved by addressing major deficiencies in the financial infrastructure such as improving credit guarantee schemes, protecting the rights of financial consumers, ensuring transparency and access to information and ameliorating the institutional and regulatory framework of the microfinance sector.

66. The project will be utilized to strengthen credit guarantee schemes that would ultimately encourage banks to lend to MSMEs. The design of new guarantee products tailored to SMEs, which are based on proper risk analysis, will promote JLGC's operations development and sustainability. This will facilitate access to finance for creditworthy firms, when such access is constrained by insufficient credit information and collaterals through reducing the risk and potential losses of creditors, inducing lending to SMEs that are considered more risky by banks. Through focusing on marginalized groups and underserved areas, this component will enhance access to SMEs financing through mitigating the risk.

67. The project aims at enhancing consumer protection instructions in order to ensure the protection of the rights of financial consumers, to guarantee a strong, competitive market, as well as to shield consumers from fraud, deception and abusive product pricing, and to promote transparency and easy access to information. Financial contracts are often complex and opaque,

and the cost of acquiring information is usually high, especially for small clients. Customers are not always in a position to make a judgment about the soundness of financial intermediaries and hence disclosure of performance data is essential for these clients to address the problem of information asymmetry and possible market failure. CBJ has shown strong commitment towards creating a reliable and strong consumer protection system and acknowledges the importance of disclosure, transparency and recourse systems in protecting the rights of financial consumers. The CBJ's newly approved instruction, "Treating Customers Fairly", covers the most critical bases in a comprehensive and clear approach to substitute the current fragmented set of rules found in different laws and circulars. This is crucial for MSMEs and especially micro finance clients and the low-income segment of society who are often putting their lifetime savings into financial institutions.

68. Strengthening the institutional framework for microfinance institutions and NBFIs will have a positive impact on the soundness of MFIs, and their ability to borrow and on-lend to micro enterprises. This will also increase the numbers of MFIs and micro-borrowers, which will contribute to reducing poverty and inequality as their expansion will allow for more outreach in the underserved Governorates beyond Amman and the main cities. The regulatory framework could ultimately enable MFIs to offer various financial services. The activities expected to be undertaken under this project would create a more enabling environment for MSMEs and lead to more sustainable private-sector led growth. Improving the institutional framework will facilitate access to finance and increase the efficiency and competitiveness of the sector. Furthermore, adopting a more comprehensive regulatory and supervisory approach by the CBJ on all NBFIs (based on the outcomes of the market study) and not only MFIs, along with enhancing credit guarantee scheme and ensuring consumer protection would ultimately lead to the development of a more transparent, inclusive and fair system.

69. As explained in Box 1, the project will also lead to gender mainstreaming. Enhancing the active participation of women in entrepreneurship activities and giving them access to markets, especially financial markets is essential as it leads to a rise in the number of economically active members in the society. Empirical evidence has shown that economic empowerment of women would generate benefits to the whole family and improve the standard of living of the children. Enhancing women's entrepreneurship opportunities and giving them equal access to finance, will ultimately result in long-run economic prosperity.

2. Value Added of Bank's Support

70. The World Bank Group brings together its cross country experience and regional knowledge as well as international best practices. There has been extensive work done in the area of MSME development, ranging from IBRD policy lending to advisory services and technical assistance under the World Bank-IFC MENA Regional MSME Facility, as well as the work done to date by the IFC and CGAP technical support across a number of key priority areas to this project. IFC and CGAP, with their extensive experience in supporting reform initiatives and body of global lessons, together with their links to a wide network of international practitioners and other donor agency partners, are further key assets that the CBJ is looking to the World Bank project team to provide, as part of the collaboration on this initiative.

71. The AFESD brings in their extensive knowledge of the region and their priority areas of reform. AFESD has also been providing line of credit to the Arab countries and has experience in dealing with central banks, banks and apex institutions. AFESD with its competent and experienced leadership has great credibility in Jordan and is entrusted by the authorities to

develop the MSME sector. The World Bank will play a coordinators role, to ensure the most effective use of resources, tapping into the comparative advantage and expertise of the different institutions.

B. Technical Analysis

72. The project will improve the financial infrastructure of the Jordanian MSMEs sector through strengthening and enhancing the credit guarantee scheme, the consumer protection mechanism and institutional setup for microfinance. The project will ameliorate the economic environment that will encourage banks to increase lending to existing and new MSMEs.

73. The credit guarantee scheme will allow for risk sharing and mitigation for lending institutions in Jordan and will act as an incentive to expand financing to MSMEs. Consequently, new MSMEs will have proper sources of finance to help them grow and create more jobs.

74. The consumer protection mechanism will enhance dissemination of information and will protect MSMEs as financial clients. This will enable MSMEs to have access to timely and accurate information. As a result, MSMEs will make informed decisions that will lower their cost and will enable them to better utilize their financial resources.

75. Adequate supervision of the microfinance sector will provide a safe and conducive environment where MFIs can expand lending to micro enterprises. This will be in the form of both increasing the portfolio of the existing MFIs in underserved areas, in addition to creation of new MFIs. This will have a positive impact on micro enterprises financing and will contribute to poverty reduction. Moreover, moving all NBFIs, and not only MFIs, under the supervisory umbrella of the CBJ, depending on the results of the market study and the CBJ's judgment, would have a positive impact on the financial system in general and can reduce many consumer protection concerns.

C. Financial Management

76. The World Bank undertook an assessment of the financial management systems within CBJ, being the proposed implementing agency, during the preparation of the on-going "Micro, Small, and Medium Enterprise Development for Inclusive Growth" Project. The assessment concluded that the proposed financial management arrangements will satisfy the minimum requirements under OP/BP10.00.

77. The proposed project will mainly finance activities related to technical assistance, and capacity building, through the selection of consultants. These are basic activities and therefore, the proposed project is expected to follow same financial management and disbursement arrangements of the on-going project; including: (i) a Designated Account (DA) will be open for the project to receive the Grant funds; (ii) quarterly Interim Unaudited Financial Reports (IFRs) will be submitted to the Bank; and (iii) the current independent external audit firm of the CBJ will be responsible to audit annually the project's accounts. The financial management and disbursement arrangements are finalized.

D. Procurement

78. The Bank conducted a procurement assessment. The project will finance mainly TA activities through selection of consultants in accordance with the World Bank's "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by

World Bank Borrowers" dated January 2011, and some limited supply of goods and software under Bank's "Guidelines: Procurement of Goods, Worls and Non-Consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011; and the provisions stipulated in the Legal Agreement. For each contract to be financed by the fund, the procurement methods or consultant selection methods, estimated costs, prior review requirements, and time frame are agreed between the CBJ and the Bank project team in the Procurement Plan (PP) dated January 6, 2014. The PP will be updated at least annually, or as needed to reflect the actual project implementation needs and improvements in institutional capacity.

79. The financial department within CBJ is responsible for carrying out all procurement related activities to headquarters and all other branches. The financial department has a workforce of around 18 employees working on procurement, most of whom are trained procurement officers with a minimum bachelor's degree in administration/accounting/finance. Nevertheless, the procurement staff of CBJ are not familiar with the World Bank's procurement and selection of consultants' guideline, therefore training will be provided to the staff.

80. ***Procurement activities***. The project will finance the following consultancy services:, (i) Strengthening Credit Guarantees Schemes;(ii) establishment of consumer protection division at CBJ;(iii) building the capacity and training of consumer protection unit staff;(iv) developing the regulatory and institutional framework for micro finance institutions and NBFIs; and(v) support in establishing a micro finance Division. The procurement method will be QCBS/other methods or through selection of individual consultants allowed under the bank's guidelines and Bank's procurement standard documents will be used. The project will finance relatively small quantities of goods, IT equipment and systems through ICB using Bank's procurement standard documents, NCB or shopping procedures using bidding documents acceptable to the Bank. The TORs for the TA contracts were prepared to ensure readiness for implementation. Procurement packages planned during the first 18 months of project effectiveness are reflected in Annex 3.

E. Social and Environmental Safeguards

81. The proposed project is a Category C, no adverse environmental impacts are envisaged. The project will not finance any civil works or purchase of goods. Thus, the Bank OP 4.01 on Environmental Assessment does not apply. If a need arises during implementation for the financing of goods or any civil works, the Bank may reassess the application of OP 4.01 and require further environmental assessment.

82. The Bank's OP 4.12 policy on Involuntary Resettlement does not apply. The project will not entail any investments that will trigger the policy since the project components are focused on client capacity building, enhancing consumer protection regulation, strengthening of the credit guarantee scheme, and improving the regulatory framework for micro finance institutions. This project does not include civil works, relocation of populations, impacts on livelihoods nor restriction of access to resources. Social impacts are likely to be positive. Project activities of technical assistance, capacity building, and study tours will enhance individuals and institutional reforms will support small private sector entities.

ANNEX 1
RESULTS FRAMEWORK AND MONITORING

PROJECT DEVELOPMENT OBJECTIVE (PDO): The main objective of the project is to enhance financial services and products and to strengthen financial protection mechanism for MSMEs, while enhancing governance.

PDO Level Results Indicators	**Core**	**Unit of Measure**	**Baseline**	**Cumulative Target Values**				**Frequency**	**Data Source/ Methodology**	**Responsibility for Data Collection**
				YR 1	**YR 2**	**YR 3**	**YR 4**			
Number of microfinance loans after bringing the MFIs under the umbrella of CBJ	☐	Number	0	0	500	1000	1500	Annual	CBJ Report	CBJ
Number of SME loans guaranteed by JLGC	☐	Number	3000	3200	3,500	4,000	4,500	Annual	JLGC	CBJ
Number of complaints resolved to the satisfaction of the consumer by the Consumer Protection Unit at CBJ within [30] days.	☐	Number	0	0	400	500	600	Annual	CBJ Report	CBJ
Direct Project Beneficiaries	☐	Number	3000	3200	4400	5500	6600	Annual	CBJ /JLGC	CBJ
Direct Project Beneficiaries of which female %	☐	Percentage	10	13	14	16	20	Annual	CBJ /JLGC	CBJ
INTERMEDIATE RESULTS										
Component I: Strengthening the Credit Guarantee Schemes										
Value of guarantees issued	☐	Million JD	49	51	54	60	65	Annual	JLGC	CBJ
Guaranteed loans by JLGC to women-owned SMEs		Percentage	5	6	7	9	11	Annual	JLGC	CBJ
Component II: Enhancing the Consumer Protection Mechanism										
Consumer Protection Unit at CBJ fully staffed and operational	☐	Yes/No	No	No	Yes	Yes	Yes	Annual	CBJ Report	CBJ
Completion of the necessary training programs for the staff in the Consumer Protection Unit	☐	Number	0	0	3	4	5	Annual	CBJ Report	CBJ
Number of public awareness campaigns and financial literacy programs	☐	Number	0	0	1	2	3	Annual	CBJ Report	CBJ
Component III: Developing the Regulatory and Institutional Framework for Micro Finance Institutions and NBFIs										
Microfinance Division at CBJ fully staffed and operational	☐	Yes/No	No	No	Yes	Yes	Yes	Annual	CBJ Report	CBJ

ANNEX 2

DETAILED PROJECT DESCRIPTION

1. The proposed project comprises of three main components: (i) strengthening credit guarantees schemes; (ii) enhancing the consumer protection mechanism; and (iii) developing the regulatory and institutional framework for micro finance institutions. The total cost of the project is US$ 3 million.

Project Components

Component I: Strengthening Credit Guarantees Schemes (US$ 1 million).

2. This component aims at developing the JLGC SME loan guarantee products, and designing new ones that are tailored to SMEs, which are based on proper risk analysis, addressing moral hazard and adverse selection, with the objective of enhancing JLGC operations development and sustainability. This component will focus on assisting JLGC in enhancing its core internal capabilities and expanding its outreach and increasing the impact of its products, especially those targeting SMEs with a focus on marginalized groups, including women and underserved areas. At the same time, it will support JLGC in designing a guarantee product for micro-lending. Strengthening the credit guarantee mechanism will enhance MSMEs access to finance.

3. While a WB/IFC TA is underway, this component would support areas in addition to the ones being implemented and is also aimed at enhancing JLGC's internal capabilities to execute the transformation agenda. Total TA project is divided into seven work streams: i) Market Research; ii) Risk Management; iii) Product Development (segmentation and delivery mechanism included); iv) Marketing & Outreach; v) Payment Rules, vi) Analytics and systems and vii) Organization and Human Resources. In order to execute the change initiatives and achieve scale, sustainability and efficiency, the following are the additional areas where support is requested by JLGC:

a. **Organization and Human Resources:** There are significant gaps in this area that need to be addressed for the JLGC to gain required competencies and enhance chances for the successful implementation of the change initiatives. These are under the following 3 areas:

- ***People Expertise*.** JLGC does not have the required internal management expertise in the areas of (i) product and business development; (ii) risk management;(iii) marketing and outreach; and (iv) payment rules. In this respect JLGC plans to recruit(i) a risk management resident advisor to work with IFC and WB to implement and manage the risk framework transformation and reform the payment rules, (ii) a product and business development resident advisor to work with the IFC team and help launch new products and revamp the existing ones as well as oversee execution of strategic enablers;(iii) a marketing resident advisor to focus on market coverage, strengthening relationships with Partner Institutions and ensure growth in the volume of guarantees and help refine it. These three resident advisors would be employed over the project lifecycle of four years in order to execute and institutionalize the acquired core competencies so that the targeted outreach and impact can be achieved. In addition these resident advisors would train JLGC staff and improve their technical know-how for changes to be sustained. The total cost of these three advisors over the four year period is estimated at US$ 0.54 million.

- ***Knowledge.*** JLGC will significantly benefit by learning from best practice guarantee schemes around the world. This would also help avoid typical pitfalls, fast track launch of initiatives and would increase chances of success. Some of the guarantee schemes have achieved success such as Kafalat (Lebanon), Small Business Finance Program (Canada), FOGAPE (Chile), OSEO (France) and KODIT (Korea). Hence JLGC can benefit from Study tours to best practice credit guarantee institutions in 4 different countries to emulate these best practices and continually refine the building blocks. The estimated cost of the 4 study tours (one study tour planned per year) is anticipated at US$ 0.11 million.

- ***Capacity building for banks.*** There is also a need for building frontline people capacity at banks through training so that the banks are able to understand, bundle and sell the products and schemes that would be launched by JLGC. In this respect JLGC would need to build a training curriculum in order to train and certify relationship managers and team leaders at banks. The cost of building such training curriculum is estimated at US$ 0.05 million.

b. **Analytics & systems:** There is a significant need for JLGC to (i) implement an Enterprise Resource Planning (ERP) system; (ii) enhance data warehousing and analytics generating systems; (iii) improve Management Information System (MIS) mechanism through technology based tools and systemized monitoring; (iv) increases process automation and building interfaces with Banks; and (v) acquire hardware and software to support all the growth initiatives. This is another significant area of capacity building and is estimated to cost US$ 0.3 million.

Component II: Enhancing the Consumer Protection Mechanism (US$ 1.2 million)

4. This component aims at creating a reliable and strong consumer protection supervisory and complaints resolution system in Jordan, which highlights the importance of disclosure, transparency and recourse system in protecting the rights of financial consumers. The objective is to operationalize the Treating Customers Fairly, CBJ Instructions No. 56 of 2012, which aims at promoting financial inclusion and consumer protection. The project will support the establishment of the Consumer Protection Unit at CBJ, as well as, build its capacity to perform its mandate in terms of ensuring financial intermediaries compliance of these instructions, and empowering the unit to enforce such instructions. This component aims to guarantee that MSME clients (and, indeed, non-business consumers of financial services for non- business purposes) are receiving timely and appropriate information, and adequate service. It will also ensure that they are not subjected to improper behavior or corruption practices, and that financial intermediaries do not create unnecessary hurdles or discrimination. Furthermore, it will improve transparency, accountability and governance, and will prevent abuse of the illiterate segment of the population, especially in the marginalized areas.

5. This will be delivered through: (i) assisting in the establishment of a Consumer Protection Unit at CBJ to supervise compliance with consumer protection regulations (including the new Treating Customers Fairly Instructions) and to handle complaints. This will be done by conducting an assessment of the capacity building, training and resource requirements for the Unit and assisting CBJ in the development of approaches to fulfill these requirements; (ii) providing capacity building to CBJ to undertake these functions. This would include, for example, helping CBJ to establish appropriate on-site and off-site monitoring systems and procedures, advice on enforcement mechanisms and training on how to use consumer research

on a regular basis, and on how to identify financial inclusion barriers created by some financial institutions (such as minimum balance amounts for opening a bank account). The techniques the subject of this training could include surveys, qualitative research (focus groups), mystery shopping, and analysis of complaints data. Furthermore, this component will finance the development of financial literacy programs through CBJ on subjects such as the legal rights of clients, understanding different financial products offered in the market and compliant resolution. This component could also include advising CBJ on the Treating Customers Fairly Instructions and related laws, including on any changes which may be considered necessary to fulfill the objectives outlined above; and (iii) conducting two study tours for senior officers of the new Consumer Protection Unit (once it is established) to countries which have well developed systems for financial consumer protection regulation and supervision.

6. Establishing the Consumer Protection Unit will enable it to enforce the following disclosure and accountability requirements reflected in the Treating Customers Fairly Instructions, which include (in summary): (i) mandatory plain-language disclosures of all key prices, terms, and conditions; (ii) requirement that all key information be stated in the contract; (iii) the required disclosure of an effective annual percentage rate (which analytical work has shown to be more comprehensible for many consumers including those with lower levels of education and financial sophistication); (iv) the specific requirements that no additional fees can be charged beyond those that are disclosed; and (v) the requirement that the difference between fixed and variable interest rates is explained clearly to the customer up-front and is based on observable benchmarks in the market.

Component III: Developing the Regulatory and Institutional Framework for Micro Finance Institutions and NBFIs (US$ 0.8 million)

7. This component aims at supporting policy and regulatory reforms to develop the NBFI and microfinance sector. Recognizing the importance of its role as a financial regulator and supervisor, for not only banks but also for NBFIs, CBJ is taking serious steps towards regulating and supervising the microfinance sector. This would entail setting a regulatory framework that is conducive to micro finance and NBFIs, as well as, institutional reforms that would allow CBJ to undertake such mandate. In addition, it would also cover IT, both software and hardware, strengthening the institutional infrastructure.

8. The upcoming regulations that will be supported by the EU Program would move the microfinance sector under the regulatory and supervisory umbrella of the CBJ, and depending on further judgments based on a NBFI market study, there are plans to also include all NBFIs at a later stage. It will comprise of light prudential rules with a focus on consumer protection, fit and proper requirements, strong governance rules, risk management and internal and external controls. The regulation would also adopt general definitions for microfinance, and for the permitted financial services. The project will support CBJ in establishing, staffing and equipping a Microfinance Division within the Banking Supervision Department, which would be responsible for enforcing rules, ensuring compliance with the regulations, and supervising MFIs.

ANNEX 3

IMPLEMENTATION ARRANGEMENTS

A. IMPLEMENTING AGENCY

1. The CBJ is the implementing agency for the Project, which will be responsible for coordinating and managing the overall project. The CBJ was selected as the implementing agency, being the entity responsible for regulating and supervising the banking sector in Jordan. The CBJ also holds majority ownership of JLGC, which is chaired by the Deputy Governor of CBJ. This will ensure synergy and effective coordination of all activities covered by each of the project components

2. The MENA TA Facility has been investing in the capacity building of CBJ and experience over the past year has proven the competence of CBJ to manage and implement projects. The effective implementation of the MSME Development for the Inclusive Growth Project, confirms the World Bank's previous assessment of CBJ, which showed that it has adequate capacity to implement, coordinate and manage the project. Arrangements will be put in place to ensure adequate project supervision, covering fiduciary and safeguards aspects, with semi-annual supervision missions. The supervision team will draw on expertise from the Bank as well as external experts, where necessary. Meetings with other concerned stakeholders engaged in similar activities, including donor agencies, will be undertaken during supervision missions and three key team members located in Amman.

B. FINANCIAL MANAGEMENT

3. The Project team managing the on-going "MSME Development for Inclusive Growth Project" will manage this project. The team includes a Financial Officer who has built a good knowledge on the World Bank financial management and disbursement guidelines while working on the ongoing "MSME development for inclusive growth project.

4. *Project FM risk.* The overall FM risk is "Moderate". With mitigation measures in place, the project will have acceptable project FM arrangements and its FM risk rating will be "Low". Giving the satisfactory capacity of CBJ and the nature of the Project, the FM risk is assessed as "Moderate" mainly due to: i) despite that the Financial Officer built a good understanding of World Bank financial management and disbursement guidelines, some close support and training are still needed; ii) Grant funds needed for the project may not be available in a timely manner, and iii) the current CBJ accounting system is not capable of generating the quarterly IFRs as per World Bank guidelines.

5. The following measures are to be taken to mitigate FM-related risks: i) the project team includes a qualified Financial Officer; ii) the FM chapter of the Operations Manual, which was prepared for the ongoing "MSME development and inclusive Project", is updated for this operation; iii) the World Bank will continue to closely support the project team; and iii) CBJ accounting system will be used to capture the project's financial transactions and generate the financial statements for the quarterly IFRs reports but few unavailable statements by the system will be generated using excel sheets.

6. *Budgeting and funds flow*. The budgetary process is conducted by the Administrative and Finance Department. This department has satisfactory planning and budgeting capacity, which

enables CBJ to prepare sound plans and budgets. The budget is first prepared at the departments' level then grouped and discussed with the Administrative and Finance Department before being presenting to the Board for approval. The Project disbursement plan will be prepared by the banking supervision department and it will be updated periodically and will be used to reflect the variances upon IFRs submission. A US Dollar Designated Account (DA) will be opened at the CBJ to be managed by the banking supervision department. Deposits into and payments from the DA will be made in accordance with the disbursement letter. CBJ will prepare withdrawal applications with the related supporting documents, signed by the designated signatories.

7. *Accounting and reporting*. The CBJ maintains acceptable financial management system "Oracle-system", which is centralized at the Central Accounting Division. The Project accounting system will be integrated into CBJ accounting system and for this purpose, the needed accounts, within its ledger, will be opened to reflect the project activities and have in place a control balance to be used for reconciliation purposes. The project will produce quarterly consolidated Interim Un-audited Financial Reports (IFRs). The quarterly consolidated IFRs will be submitted by the banking supervision department to the Bank within 45 days after the end of concerned quarter. The IFRs will include: (i) a statement on sources and uses of funds for the reporting period and cumulative; (ii) a detailed statement of commitments, and (iii) a reconciliation statement of the DA account. The system will be used to generate some of the statements required as part of the quarterly IFRs but the remaining statements unavailable by the system will be generated using Excel.

8. *Internal controls*. The CBJ organization consists of 14 departments CBJ and governed by: (i) a Board of Directors; (ii) the Governor; and (iii) two Deputy Governors. The Project will be implemented under the general context of CBJ internal control policies and procedures. The CBJ follows the CBJ Law No.23 of 1971 and its amendments and the internal regulations bylaw. For the purpose of the ongoing "MSME development for inclusive growth project", an Operation Manual was developed that reflects CBJ policies and procedures complemented by the Bank's requirements for: (i) financial management guidelines with respect to financial reporting requirements,(ii) disbursement procedures, and (iii) external auditing of the Project's accounts by qualified acceptable audit firm. The financial management chapter of this Manual will be updated for this operation.

9. *Internal and external auditing*. CBJ has internal audit function, acceptable to the World Bank, which adopts the risk-based approach according to the International Standards of Internal Auditing issued by the Institute of Internal Auditors. The internal audit department reports directly to the Chairman of the Board of Directors. The Audit Department has in place audit charter that was prepared in 2010 and was updated in 2012 and detailed audit manual that is regularly updated, as needed. The Internal Audit Department is adequately staffed, comprising of 28 employees divided into 3 main divisions (i) Information Systems Auditing Team; (ii) Studies & Documentation Division; (iii) Operations Auditing Division which consist of 6 groups {(1) foreign investment and operations; (2) domestic payments; (3) administrative and finance; (4) HR; (5) Open market operations and Banking supervision; and (6) currency issues and exchange supervision;}. The audit methodology is based on risk-based approach. As requested by the World Bank, the Project will be subject to the annual internal audit performed by internal audit department. The audit of financial statements for the CBJ for 2011, which was carried out by a private independent auditor contained a qualified opinion. No material internal

control issues that could impact the proposed Project were reported, however. The main qualifications related to provision of doubtful accounts and conversion of foreign debt. The audit report and financial statements of the CBJ are available on the CBJ website.

10. The current external independent auditor of the CBJ is acceptable to the World Bank to audit annually the Project financial statements in accordance with international standards on Auditing (ISA).The audit report and management letter will be submitted by CBJ to the World Bank within six months after the end of the audit period. CBJ will be responsible for widening the scope of the current external auditor to include auditing the Project Financial Statements. The annual audit report of the Project accounts shall include a separate opinion of the project's internal controls. According to the World Bank Policy on Access to Information issued on July 1, 2010, the audit report with audited financial statements of the project will be made available to the public. CBJ is subject to statutory annual audits performed by an independent private audit firm; therefore, the CBJ will share its annual audited financial statements with the World Bank.

11. *CBJ disbursements.* The proceeds of the Grant will be disbursed in accordance with the World Bank's disbursements guidelines as outlined in the Disbursement Letter and in accordance with the World Bank Disbursement Guidelines for Projects. Transaction-based disbursement will be used under this project. Accordingly, requests for payments from the Grant will be initiated through the use of Withdrawal Applications (WAs) either for direct payments, reimbursements and replenishments to the DA. All WAs will include appropriate supporting documentation, including detailed Statement of Expenditures (SOEs) for reimbursements and replenishments to the DA. The category of Eligible Expenditures that may be financed out of the proceeds of the Grant and the percentage of expenditures to be financed for Eligible Expenditures will be spelled out in the Grant Agreement. A four months' grace period will be granted to allow the financing of any eligible expenditure incurred before the grant closing date.

12. *E-Disbursement.* The Bank has introduced e-Disbursement for all projects in Jordan. Under e-Disbursement, all transactions will be conducted and associated supporting documents and IFRs scanned and transmitted online through the World Bank's Client connection system. The use of e-Disbursement functionality will streamline online payment processing to (i) avoid common mistakes in filling out WAs; (ii) reduce the time and cost of sending WAs to the Bank; and (iii) expedite the Bank processing of disbursement requests.

13. Necessary supporting documents will be sent to the World Bank in connection with contract that is above the prior review threshold. The documentation supporting expenditures will be retained at the banking supervision department and will be readily accessible for review by the external auditors and World Bank supervision missions. All disbursements will be subject to the conditions of the Grant Agreement and disbursement procedures as will be defined in the Disbursement Letter.

14. Table1 below specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant and the percentage of expenditures to be financed for Eligible Expenditures :

Table 1: Categories of Eligible Expenditures and the Percentage of Expenditures to be financed by the Grant

Category	Amount of the Grant Allocated (expressed in US$)	Percentage of Expenditures to be Financed (inclusive of taxes)
Goods, non-consultant services, consultants' services, Training, and Operating Costs under the Project	3,000,000	100%
TOTAL AMOUNT	**3,000,000**	

C. PROCUREMENT ARRANGEMENTS

15. Procurement for this project will be carried out in accordance with the World Bank's "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011, and "Guidelines: Procurement under IBRD Loans and IDA Credits and Credits by World Bank Borrowers" dated January 2011; and the provisions stipulated in the Legal Agreement. For each contract to be financed by the Loan, the procurement methods or consultant selection methods, estimated costs, prior review requirements, and time frame are agreed between the Borrower and the Bank project team in the Procurement Plan (PP) dated January 6, 2014. The PP will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity. In addition procurement procedures for National Bidding Documents and sample bidding documents were reviewed by the Bank during the appraisal mission to ensure these are acceptable to the Bank

16. ***Summarized Procurement Plan.*** Below are the summarized procurement activities to be carried out during the first 18 months of project effectiveness and the prior review threshold.

17. ***Goods and Works and non-consulting services.***

a. *Procurement Method and Prior Review Threshold:* Procurement Decisions subject to Prior Review by the Bank as stated in Appendix 1 to the Guidelines for Procurement:

Procurement Category	Prior Review Threshold (USD)	Comments
Goods	>= 3 million and any direct contract regardless of value	
Non-Consultant Services	>= 3 million and any direct contract regardless of value	

b. *Summary of the Procurement Packages planned during the first 18 months after project effectiveness (including those that are subject to retroactive financing and advanced procurement)*

1	2	3	4	6	7
Ref. No.	Description	Estimated	Procurement	Review	Invitation to

		Cost US$	Method	by Bank (Prior / Post)	Bid Date
G.SH. several	Several IT equipment packages for establishing consumer unit and Micro finance Division	300,000	Shopping	post	June 15, 2014

18. ***Selection of Consultants***

Prior Review Threshold: Selection decisions subject to Prior Review by Bank as stated in Appendix 1 to the Guidelines Selection and Employment of Consultants:

	Selection Method	**Prior Review Threshold**	**Comments**
1.	Competitive Methods (Firms)	1 million	
2.	Single Source (Firms)	All	
3	Individual consultant	0.075 million	

a. Short list comprising entirely of national consultants: Short list of consultants for services, estimated to cost less than US$300,000 equivalent per contract, may comprise entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

b. Any Other Special Selection Arrangements: a number of QCBS for selection of supervision and TA consultants will be financed under retroactive financing and advance procurement.

c. Consultancy Assignments with Selection Methods and Time Schedule

1	**2**	**3**	**4**	**5**	**6**
Ref. No.	Description of Assignment	Estimated Cost US$	Selection Method	Review by Bank (Prior / Post)	Issue RFP date
C.QCBS.1	Strengthen credit guarantee schemes	1 million	QCBS	prior	March 2014
C.QCBS.2	Enhance consumer protection mechanism	0.5 million	QCBS	prior	May 2014
C.IND.1	Supporting the development of the institutional framework for microfinance and Non-bank Financial Institutions (NBFIs) supervision	0.3 million	Individual consultants	Prior/post	April 15, 2014

19. ***Procurement risks are in particular inherent to the following****:* (i) a clear legal framework regarding selection of consultants is lacking in Jordan, CBJ procurement bylaw and the regulations (154/2003) dated 25/3/2003 that sets the mechanism and the process of

procurement in CBJ has no specific reference to procurement of consulting services and consultants contracts (ii) standard bidding documentation for request for proposals not used by procurement practitioners, (iii) lack of familiarity of CBJ procurement staff with Bank's procurement and (iv) delays in implementation due to the lack of experience in selection of consultants and evaluation of proposal.

20. Based on the overall assessment of the CBJ to implement procurement and the information available on the procurement environment in Jordan, the overall procurement risk is judged to be Moderate. This rating therefore requires the assignment of dedicated and qualified procurement manager to handle the project, as well as the provision of formal and on–the-job training to the project team on procurement and project management both before and during project implementation.

21. ***Mitigating measure****:* The following measures, corresponding to the risks identified above, are expected to be implemented: (i) project design kept simple (iii) close supervision of the Bank staff, (iii) Training at project launch workshop will be provided as well as on–the-job training to the project team on procurement and project management.

ANNEX 4 -OPERATIONAL RISK ASSESSMENT FRAMEWORK (ORAF)

Enhancing Governance and Strengthening the Regulatory and Institutional Framework for Micro, Small, and Medium Enterprise Development Project

The Hashemite Kingdom of Jordan

<table>
<tr><th colspan="7">Project Stakeholder Risks</th></tr>
<tr><td>Stakeholder Risk</td><td>Rating</td><td colspan="5">Moderate</td></tr>
<tr><td rowspan="2">Description:

(i) CBJ- Principal risks come from a delay or reversal of policy commitment to enhance access of MSMEs to finance due to turnover of leadership

(ii) Donors–there are a large number of donors and development agencies that are working on financial inclusion in Jordan which could result in a lack of coordination.</td><td colspan="6">Risk Management:

Risk Management: CBJ
Developing the legal regulatory and institutional financial infrastructure to enhance sustainable access to finance for micro, small and medium enterprises has been an important component of the government‘s agenda. The CBJ is an independent entity responsible for regulating and supervising the Banking system in Jordan. The Bank has an extended and sustained program with CBJ and found it to be a reliable counterpart from technical and implementation stand point as evident in the on-going MSME Development for inclusive Growth in Jordan Project which is performing well and has already disbursed US$ 48 million. Moreover, MSME development has remained a constant agenda. Taking this into account , it is not anticipated that the Government would reverse its support for the objectives and activities proposed above for the project

Risk Management: Donors. The World Bank will work closely with all stakeholders including the Jordanian authorities, CBJ, JLGC and other donors and development agencies to ensure effective coordination, synergies and a consistent message.</td></tr>
<tr><td>Resp: Bank/CBJ</td><td>Stage: Prep. & Impl</td><td>Recurrent:</td><td>Due Date: 28- Feb -2018</td><td>Frequency:</td><td>Status: Ongoing</td></tr>
</table>

Implementing Agency Risks (including fiduciary)						
Capacity	**Rating**	Moderate				
Description: Insufficient capacity to implement the project may cause delays; slippage in implementation and insufficient quality of delivered services.	**Risk Management:** The effective implementation of the on-going Micro, Small and Medium Enterprise Development for Inclusive Growth Project confirms the World Bank's previous assessments of CBJ, which showed that it has adequate capacity to implement, coordinate and manage the project. Moreover, the project will be providing capacity to the implementing entity, and developing a clear institutional framework for execution, which streamlines the process and ensures successful completion of tasks.					
	Resp: Bank/CBJ	**Stage:** Prep.. & Impl	**Recurrent:**	**Due Date:** 28- Feb -2018	**Frequency:**	**Status:** Ongoing
Governance	**Rating**	Low				
Description: CBJ is an independent and separate entity that operates under a mandate established under law. There are no significant governance risks associated with the key implementing partner (CBJ) as such.	**Risk Management:** Close attention will be paid to key governance factors in consultation with CBJ as the preparation work proceeds and ORAF will be updated accordingly.					
	Resp: CBJ	**Stage:** Prep.. & Impl	**Recurrent:**	**Due Date:** 28- Feb -2018	**Frequency:**	**Status:** Ongoing

<table>
<tr><th colspan="7">Project Risks</th></tr>
<tr><td>Design</td><td>Rating</td><td colspan="5">Moderate</td></tr>
<tr><td rowspan="2">Description: Lack of expertise on relevant technical subjects and time needed to digest new concepts, and reaching consensus on changes may significantly delay project implementation.

The achievement of component I of the project requires coordination across CBJ and the JLGC</td><td colspan="6">Risk Management:
• Participatory approach to enhance learning and knowledge transfer and ownership.
• Longer term consultants and capacity building and training to CBJ staff to provide support from the onset for the integration of different components.
To address the risk of the necessary co-ordination, the project team would work with the CBJ to fully leverage the JLGC which is already operational in Jordan and involve it right from the inception of the project.</td></tr>
<tr><td>Resp: CBJ/Bank</td><td>Stage: Implementation</td><td>Recurrent:</td><td>Due Date: 28- Feb -2018</td><td>Frequency:</td><td>Status: Ongoing</td></tr>
<tr><td>Social and Environmental</td><td>Rating</td><td colspan="5">Low</td></tr>
<tr><td rowspan="2">Description: Social and environmental risks are minimal due to this being a technical assistance project to improve regulatory framework and technical capacity of financial intermediaries, financial institutions and banks.</td><td colspan="6">Risk Management:
The Bank’s policy on Involuntary Resettlement does not apply. The project will not entail any investments that will trigger the policy since the project components are focused on client capacity building, enhancing consumer protection regulation, strengthening of the credit guarantee scheme, and improving the regulatory framework for micro finance institutions. There are no civil works, relocation of populations, impacts on livelihoods nor restriction of access to resources envisioned under the project.
Capacity building of financial intermediaries include training on the application of Jordan's Ministry of Environment's EIA regulation 37/2005 to sub-project screening and standard mitigation procedures, will be included where relevant in both this project as well as the Jordan MSME for Inclusive Growth project.</td></tr>
<tr><td>Resp: Bank/CBJ</td><td>Stage: Prep.& Impl</td><td>Recurrent:</td><td>Due Date: 28- Feb -2018</td><td>Frequency:</td><td>Status: Ongoing</td></tr>
<tr><td>Program and Donor</td><td>Rating</td><td colspan="5">Moderate</td></tr>
</table>

<table>
<tr><td rowspan="2">Description: Planned technical assistance activities may be limited in scope if sufficient donor funding is not raised. There is also the risk of duplication of donors’ efforts if there is a lack of coordination among development partners.</td><td colspan="6">Risk Management: The World Bank is working closely liaising with donors active in the MSME sector from the scoping stage onwards in an effort to harmonize and streamline the efforts of all institutions. A donor coordination meeting was also suggested to be held once every month (via video conference or audio) to ensure that each donor agency is aware of the efforts of other donors.</td></tr>
<tr><td>Resp: Bank</td><td>Stage: Prep. & Impl</td><td>Recurrent:</td><td>Due Date: 28- Feb -2018</td><td>Frequency:</td><td>Status: Ongoing</td></tr>
<tr><td>Delivery Monitoring and Sustainability</td><td>Rating</td><td colspan="5">High</td></tr>
<tr><td rowspan="2">Description: Ability to exercise adequate level of project supervision in view of the current uncertainties in the region.
Description: CBJ lack of technical and institutional capacity to maintain project initiatives (new functions on MFI regulation , consumer protection) after project completion</td><td colspan="6">Risk Management: Staff from the local country office would be actively involved in the project ongoing supervision and remote mission leveraging VC facilities would be conducted if required

Risk Management: The project will provide training and capacity building to CBJ staff to ensure technical and institutional capacity to maintain project initiatives after project completion.</td></tr>
<tr><td>Resp: Bank/CBJ</td><td>Stage: Prep. & Impl</td><td>Recurrent:</td><td>Due Date: 28- Feb -2018</td><td>Frequency:</td><td>Status: Ongoing</td></tr>
<tr><td colspan="7">Overall Risk</td></tr>
<tr><td colspan="7">The overall implementation risk is rated as Moderate. With the above mitigation measures in place, it is not expected that the risks will have implications on the project’s capacity to achieve results.</td></tr>
</table>

ANNEX 5

IMPLEMENTATION SUPPORT PLAN

1. The World Bank will support the implementation of the project and provide the technical advice necessary to facilitate the achievement in the PDO.

2. The World Bank's FM team will support CBJ to enhance their knowledge on FM Bank procedures and guidelines by providing workshops on FM and disbursement.

3. There will be a subsidiary agreement signed between the Recipient and CBJ whereby the Recipient makes the funds of the grant available to CBJ for implementation of the project.

4. Through the project duration the World Bank team will closely monitor the project on semi-annual supervision missions. During the supervision mission, the World Bank will ensure that the financial arrangements agreed on are respected and will assess if any additional training or support is needed. The World Bank team will review and clear the audit TOR, review the audit reforms and IFRs received and provide its feedback on a timely manner.

5. The main focus in terms of implementation during:

Time	***Focus***	***Skills needed***	***Resource estimate***
First twelve months	Strengthening credit guarantees schemes, and developing the regulatory and institutional framework for micro finance institutions.	Financial Specialist, MSME specialist, Finance Operations Officer, Principal Operations Officer, Legal Advisor and Micro Finance Expert, Procurement Specialist, Financial Management Specialist, Financial development analyst	1.8 million
12-45 months	Enhancing the consumer protection mechanism	Banking and MSME Finance expert, Financial specialist, MSME specialist, Finance Operations Officer, Micro Finance Expert	1.2 million

6. Skills Mix Required:

Skills Needed	***Number of Staff weeks***	***Number of Trips***
Financial Specialist, MSME specialist, Finance Operations Officer, Principal Operations Officer, Legal Advisor and Micro Finance Expert, Procurement Specialist, Financial Management Specialist, Financial development analyst, Banking and MSME Finance expert, Financial specialist	60 weeks	7 trips

7. Partners:

Institution	Role
AFESD	The World Bank will provide implementation support to the project and the AFESD will participate in missions for coordination of this activity with other related activities
GIZ	GIZ will coordinate the second component on enhancing the consumer protection mechanism and the third component, developing the regulatory and institutional framework for micro finance institutions and NBFIs.