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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF US$70 MILLION

TO THE

HASHEMITE KINGDOM OF JORDAN

FOR THE

MICRO, SMALL, AND MEDIUM ENTERPRISE DEVELOPMENT FOR INCLUSIVE GROWTH PROJECT

February 6, 2013

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

THE HASHEMITE KINGDOM OF JORDAN

Currency and Equivalent
(As of January 7, 2013)
Unit of Currency = Jordanian Dinar
1$ = JD 0.709

Fiscal Year
January 1st – December 31st

ABBREVIATIONS AND ACRONYMS

AFESD	Arab Fund for Economic and Social Development	IFRs	Interim Financial Reports
ASEZ	Aqaba Special Economic Zone	JEDCO	Jordan Enterprise Development Corporation
BDU	Business Development Unit	JIC	Jordan Innovation Centers
CAR	Capital Adequacy Ratio	JLGC	Jordan Loan Guarantee Corporation
CBJ	Central Bank of Jordan	JLGF	Jordan Loan Guarantee Facility
CGAP	Consultative Group to Assist the Poor	KPI	Key Performance Indicator
CPS	Country Partnership Strategy	MENA	Middle East and North Africa
CSR	Corporate Social Responsibility	MFIs	Microfinance Institutions
DA	Designated Account	MOPIC	Ministry of Planning & International Cooperation
DEF	Development and Employment Fund	MOU	Memorandum of Understanding
DPL	Development Policy Loans	MSME	Micro, Small and Medium Enterprises
EBRD	European Bank for Reconstruction and Development	MTR	Midterm Review
EDP	Executive Development Program	NBFI	Non-bank Financial Institutions
EIA	Environmental Impact Assessment	NCTBI	National Consortium for Technology & Business Incubation
EIB	European Investment Bank	NGO	Non-Governmental Organization
ESIA	Environmental and Social Impact Assessment	NPLs	Non-Performing Loans
ESMF	Environment and Social Management Framework	OECD	Organization for Economic Co-operation and Development
ESMI	Environmental and Social Management Impacts	OM	Operational Manual
ESMP	Environmental and Social Management Plan	OPIC	US Overseas Private Investment Corporation
FDI	Foreign Direct Investment	ORAF	Operational Risk Assessment Framework
FIL	Financial Intermediary Loan	PDO	Project Development Objective
FM	Financial Management	PFI	Participating Financial Intermediaries
FSAP	Financial Sector Assessment Program	PIU	Project Implementing Unit
HCST	Higher Council of Science and Technology	QRCE	Queen Rania Center for Entrepreneurship
ICS	Investment Climate Survey	ROA	Return on Assets
IDA	International Development Association	TA	Technical Assistance
IEG	Independent Evaluation Group	TF	Trust Fund
IFC	International Finance Corporation	TOR	Terms of Reference
GIZ	Gesellschaft für Internationale Zusammenarbeit	OP	Operational Policy
JD	Jordanian Dinar	USAID	United States Agency for International Development
IFRS	International Financial Reporting Standards	IE	Impact Evaluation

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HASHEMITE KINGDOM OF JORDAN

Micro, Small and Medium Enterprise Development for Inclusive Growth Project

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PAD DATA SHEET

HASHEMITE KINGDOM OF JORDAN

Micro, Small and Medium Enterprise Development for Inclusive Growth Project

PROJECT APPRAISAL DOCUMENT

Middle East and North Africa

Finance and Private Sector Development

Basic Information			
Date:	06-Feb-2013	Sectors:	SME Finance, Microfinance
Country Director:	Ferid Belhaj	Themes:	MSME Support
Sector Manager:	Simon C. Bell	EA Category:	FI – Financial Intermediary Assessment
Sector Director:	Loic Chiquier		
Project ID:	P132314		
Lending Instrument::	Financial Intermediary Loan		
Team Leader(s):	Sahar Nasr		
Joint IFC: Yes			

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

Project Implementation Period:	Start Date: March 5, 2013	End Date:	June 30, 2015
Expected Effectiveness Date:	May 1, 2013		
Expected: Closing Date:	December 31, 2015		

Project Financing Data (US$M)		
[X] Loan	[ ] Grant	[ ] Other
[ ] Credit	[ ] Guarantee	

For Loans/Credits/Others

Total Project Cost :	70.00	Total Bank Financing :	70.00
Total Co-financing :		Financing Gap :	

Financing Source	Amount(US$M)
BORROWER/RECIPIENT	
IBRD	70.00
IDA: New	
IDA: Recommitted	
Others	
Financing Gap	
Total	70.00

Expected Disbursements (in USD Million)

Fiscal Year	2013	2014	2015	2016
Annual	34	34	2	–
Cumulative	34	68	70	70

Project Development Objective(s)

The objective of the Project is to contribute to the improvement of access to finance for micro, small and medium enterprises in the Hashemite Kingdom of Jordan.

Components

Component Name	Cost (USD Millions)
Lines of credits to MSMEs	70.00

Compliance

Policy

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

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

Conditions

Name	Type
Article V 5.01(a) - Subsidiary Agreement	Effectiveness

Description of Condition
The Subsidiary Agreement has been executed on behalf of the Borrower and the Project Implementing Entity

Name	
Article V 5.01(b) - Operational Manual	Effectiveness

Description of Condition
The Project Operational Manual, satisfactory to the Bank, has been finalized and adopted by the Project Implementing Entity

Team Composition		
Bank Staff		
Name	**Title**	**Specialization**
Sahar Nasr	Task Team Leader	Banking and MSME Finance
Niraj Verma	Senior Financial Sector Specialist	MSME Finance
Gabi Afram	Senior Financial Economist	MSME Finance
Nahla El-Okdah	Associate Operations Officer	Financial Inclusion
Mohammed Khaled	Senior Operation Officer, IFC	Microfinance
Nazaneen Ali	Senior Procurement Specialist	Procurement
Jad Mazahreh	Senior FM Specialist	Financial Management
Nadine Chehade	CGAP MENA Representative	Microfinance
Laila Abdelkader	Financial Sector Specialist	Financial Sector
Hassine Hedda	Finance Officer	Loan Operations
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Hana Salah	Consultant	Social Safeguards
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Marwan Ezz Al Arab	Research Analyst	Financial Sector
Yara El Abd	Economic Analyst	Financial Sector
Concepcion Aisa Otin	Financial Officer	Finance
Amira Fouad Zaky	Program Assistant	Program Assistant
Marjorie Espiritu	Program Assistant	Program Assistant

I. STRATEGIC CONTEXT

A. Country Context

1. An inclusive financial system can play a pivotal role in job creation, poverty reduction and overall sustainable economic growth. In that context, the proposed financial intermediary loan (FIL) to the Hashemite Kingdom of Jordan for the Micro, Small, and Medium Enterprise (MSME) Development for Inclusive Growth Project aims at contributing to the improvement of access to finance for micro, small and medium enterprises in the Hashemite Kingdom of Jordan. Through improved financial intermediation, the Project enhances the creation of private sector job opportunities, contributing to inclusive economic growth, and supporting poverty eradication efforts.

2. The Project is in response to the Government of Jordan's request, dated June 26, 2012, for World Bank support in developing the MSME sector. The link between MSMEs, job creation, and economic growth has important implications for development strategies. New research confirms that smaller firms are important contributors to total employment, job creation, and overall economic growth. These enterprises can contribute vitally to productivity growth, and thus form a vital focus for emerging economies striving to expand employment, especially among women and youth, as well as catering to geographically and economically underserved areas, with the ultimate objective of shared prosperity.

3. The Arab region's uprisings and the global financial and economic slowdown have had implications on Jordan, taking the form of economic shocks, as well as demands for a more level playing field, equal access, and increased opportunities. The regional turmoil has significantly reduced short term growth prospects for Jordan through sharp declines in foreign direct investment (FDI), and, to some extent, remittances, while the import bill increased as a result of higher commodity prices, adversely affecting the economic environment. Overall, the Jordanian economy has been operating below its potential and has not been generating enough jobs to absorb the more than 60,000 young citizens who enter the labor market annually.

4. As a result of this slowdown in economic activity, unemployment worsened in 2012, rising to 13 percent from 12.5 percent in 2010. Youth and women were mostly affected, with unemployment, reaching high levels of 22.8 percent and 22.3 percent, respectively. Moreover, regional disparities across the various governorates persisted. Limited private sector jobs are available in the Governorates, where people have no option but to rely largely on Government and public sector jobs. High unemployment rates could be attributed to major constraints arising from the structure of economic activity, the lack of flexible labor markets, and the large presence of the public sector with market-distorting effects on wages and young people's expectations. At the same time, the private sector fell short of creating sufficient jobs for young entrants into the market due to the non-conducive business environment and inadequate access to finance.

5. 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 access to finance, enhancing competitiveness, and fostering sustainable, private sector-led growth. To face the central challenge of unemployment, it is critical to promote private sector investment and encourage

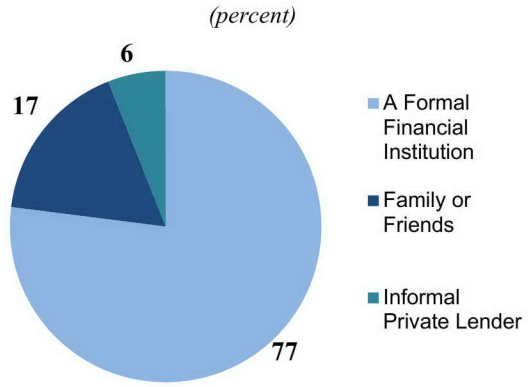
fast-growing MSMEs, which empirical evidence has shown to be the most significant employment generators. These types of high-growth MSMEs generate the majority of new jobs and can contribute vitally to productivity growth.

6. The Government of Jordan is conscious of the importance of MSMEs, and is committed to the creation of sustainable private sector jobs through MSMEs development. The recent Government's Executive Development Program (EDP) for 2011–13 that was prepared in a participatory approach underscores the importance of private sector development for job creation, and overall economic inclusion through MSME development, and specifically through improving their access to finance. Most recently at the Deauville Partnership Meeting in Rome in July 2012, the Jordanian authorities stressed the need to ensure that the dividends of economic reforms are shared equally and fairly across the country. In that regard, the primary goal is job creation through MSME development with a focus on high growth, innovative enterprises. In an effort to minimize the burden on the budget while at the same time facilitating growth-enhancing investments, the Government is working on leveraging private sector investment though promoting smaller enterprises.

B. Sectoral and Institutional Context

7. MSMEs are major contributors to the Jordanian economy and to its competitiveness, and employment potential.[1] 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, employing 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 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.

Figure 1: Sources of Loans in Jordan (2012)



8. Although smaller firms in Jordan grow at faster rates in comparison with their large counterparts, and create more new job opportunities, they are confronted with numerous hurdles. Inadequate access to finance is frequently cited as one of the main constraints confronting their development. Financial intermediation, in general, is very low in Jordan compared to other developing economies.

9. Access to finance is substantially more of a problem for MSMEs compared to large corporates. The financial system is dominated by the banking sector, which is less competitive and plays a limited role in financial intermediation, compared to other regions.[2] Enterprises often resort to the informal sector, family and friends for access to finance (Figure 1). Private

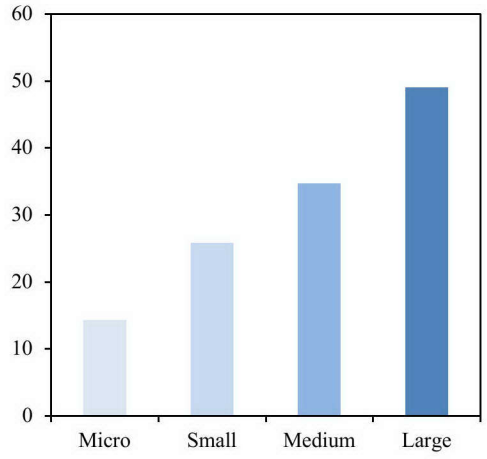
[1] SMEs are defined as those firms with between 5 and 100 employees, and microenterprises as enterprises with less than five employees.

[2] There are 26 commercial banks, including four Islamic banks, offering *Shari'a* compliant products. At the same time, non-bank financial institutions (NBFIs) are underdeveloped and are playing a limited role in financial intermediations.

sector credit-to-GDP is relatively low at 80 percent, which is largely allocated to the large corporates.

10. Although banks are the principal source of external finance for SMEs, only 11 percent of bank lending goes to SMEs, compared to 25 percent in emerging markets (Annex 6). 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 the small firms have a loan versus 38 percent of medium-sized firms and 53 percent of large corporates (Figure 2). Moreover, bank financing is mostly working capital, rather than longer term finance, though in overall terms, both remain a constraint. In terms of physical outreach, overall branches are distributed in line with population, although Governorates such as Irbid and Zarqa, both of which have active SME populations, are relatively less well served by bank branches compared to Amman.

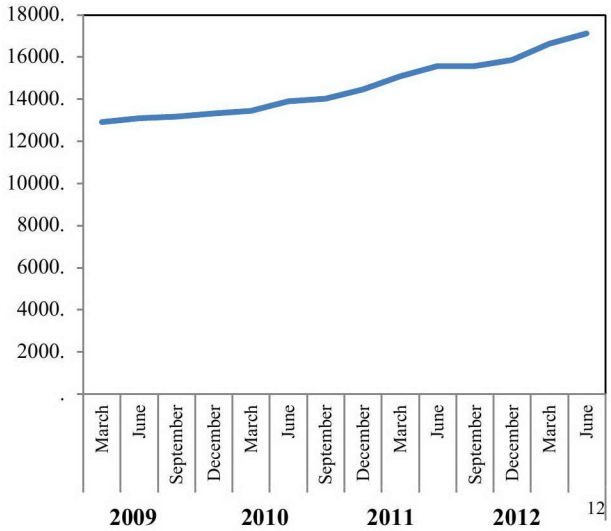
Figure 2: Access to Bank Loans, by Firm Size



Source: Investment Climate Survey (2012).

11. More recently, financial intermediation has been affected by the less favorable macroeconomic conditions, slower deposit growth, and the strain on banks' balance sheets from a potential rise in non-performing loans (NPLs). The situation for MSMEs has become worse after the Arab Spring, for two main reasons: first, the budget deficit (due to the higher oil bill that surged by 30 percent in 2011 because of the interruption of the Egyptian gas supply) meant that Government borrowing from banks has expanded (Figure 3), breaching the constitutional debt ceiling (debt to Gross Domestic Product (GDP) ratio which rose to around 65 percent by the end of the first quarter of 2012), crowding out private sector borrowing in general, but especially by SMEs.

Figure 3: Credit Extended to Government by Banks
(*million JD*)



Source: Investment Climate Survey (2012).

12. Second, the higher oil bill, has not only meant a higher deficit and higher debt, but also a balance of payments problem, as the current account went deeper in the red, putting pressure on international reserves, which declined by 14 percent in 2011, and continued to decline in the first half of 2012. Hence, interest rates have been going up to help prop the exchange rates and stop reserves from flowing out. Higher interest rates hurt MSMEs disproportionately. All these adverse developments coupled with a slowing GDP growth (expected at less than three percent in 2012); and increasing NPLs, have

adversely affected the expansion and growth of MSMEs and has contributed to the dampening of private sector credit growth.

13. Under these circumstances, these banks tend to move away from MSME lending to other sectors. There has been some evidence of crowding out of the private sector by the Government with the widening fiscal deficit, which will inevitably have implications on the liquidity of the banking system. The problem is made worse by the uneven distribution of liquidity among the banks. In particular, apart from the three largest banks in Jordan, the other small and medium-sized banks are facing considerable stresses on their liquidity position. So, although on aggregate the banking system seems to have excess liquidity, this liquidity is unevenly distributed, whereby the medium-size banks that usually lend to SMEs are the ones suffering from lack of liquidity, while the three biggest banks have ample liquidity.

14. Microcredit is growing in outreach in Jordan. In fact, Jordan has one of the highest microfinance coverage in the Arab region (Box 1). The microfinance market consisted of 230,000 active borrowers and an outstanding portfolio of over Jordanian Dinars (JD) 120 million, with an average annual growth rate in outreach of 28 percent between 2006 and 2012. There are seven active microfinance institutions (MFIs) that are leading the sector, and are playing a key role at the Governorate level, reaching out to marginalized groups. Growth of this sector, however, is still constrained by the lack of enabling microfinance regulatory and legal frameworks, and by the organization of most MFIs as not-for-profit companies rather than as investible corporations. Microfinance regulation is important for consumer protection and the overall strengthening of the sector (Annex 7). Enhancing access to finance for micro enterprises could be one of the effective tools for poverty eradication, consumption smoothening and improving the standard of living.

15. Apart from these macro-economic factors inhibiting the supply of finance to MSMEs, their low access to finance can also be attributed to numerous other factors. In addition to regulatory hurdles, on the supply side, few banks have established dedicated SME departments, or have the capability to lend to SMEs. Several 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, where small firms report having provided higher collateral than large ones. Moreover, the enforcement of basic contractual rights is cumbersome, time consuming and costly, representing a significant disincentive when lending to SMEs. To address this, several Jordanian banks use internal ratings systems for SME lending, which are based on a financial and qualitative analysis of SMEs. However, banks often use outdated techniques that do not effectively help in risk management or in lowering cost.

16. In terms of financial institutional infrastructure, Jordan's rank in Doing Business' "Getting Credit" indicator dropped 20 places in 2012 compared to 2011, from 130th to 150th, and in 2013 it witnessed a further drop by 17 places to reach 167th among 175 countries.[3] The depth of credit information index's score for Jordan is far lower than that of the average of Middle East and North Africa (MENA) and Organization for Economic Co-operation and Development (OECD) countries. This is attributed to the lack of historical credit information distributed beyond two years, non-availability of credit information from retailers, trade creditors, utility companies, or financial institutions, non-availability of data on loans below one percent of income per capita; and the fact that borrowers cannot inspect their data in the largest

[3] Overall Doing Business (2013) ranking for Jordan is 106.

credit registry. Jordan also compares poorly against MENA and OECD on public registry coverage and private credit bureau coverage.

Box 1: Microfinance in Jordan

The microfinance industry in Jordan boasts top-performing institutions that follow best practices at operational, financial, and social levels. Their performance is recognized among domestic commercial banks and international investors, allowing MFIs to fund their operations in Jordanian Dinars and at local market rates. As a result, there is currently no liquidity issue at the MFIs level. But with over 75 percent of women clients and a strong focus on working capital loans, the microfinance market is either saturated or close to saturation for the current product offering. The outreach of more than 230,000 clients as of January 2013 indeed compares with a market potential of 300,000 to 500,000 at most, with the higher end of 500,000 potential clients including more sophisticated loan products. Jordan also shows the highest penetration of all countries in the MENA region.

In such a context, channeling funds to MFIs has to be coupled with technical assistance for product development, a relatively weak area for many institutions. Aware of the need to explore new market segments, MFIs are particularly interested in SME loans in the bracket of JD5,000 to JD50,000. This fits the current project especially well given that it would be a stretch for banks to serve very small and small enterprises while those represent a natural niche for MFIs to explore, requiring the type of close relationship management they have championed.

On another note, the current economic conditions in Jordan are putting small enterprises under stress, which might prevent rapid growth but also represents a timely opportunity for a cautious SME loan product development that would not put the micro-lending business at risk. Within the timeframe of the project, MFIs will have grown a modest SME portfolio that could scale up as soon as economic risks are mitigated. On the medium to long run, MFIs would be competing with banks on the higher loan tranches (JD50,000 to JD200,000). This would coincide with the time the Central Bank of Jordan will have finalized its study of the microfinance industry and potentially brought MFIs under its supervision, ultimately creating a leveled playground for all actors on the credit market.

17. Another challenge revealed by the World Bank's recent enterprise survey (2012), is that SMEs often refrain from applying for bank loans due to their religious discomfort with interest-based borrowing. There has been a growing demand for *Shari'a* compliant financial products in Jordan, which are offered only by a limited number of banks. On the demand side, MSMEs also lack a number of necessary business skills—they often do not have sufficient knowledge of the products offered in the market and when they do, they do not always have the capacity to fill out loan application forms. These enterprises usually do not have sufficient funds to have audited financial statements or adequate collateral to apply for a loan.

18. Nevertheless, there is good potential for growth of the MSME sector in Jordan. The recent estimates for IFC-led G20 Experts Group on SME Finance reveal a potential financing gap in Jordan to be relatively wide at around US$547 million, compared to US$1.05 billion in Egypt, US$497 million in Morocco, and US$247 million in Tunisia.[4] This is consistent with the findings of the recent banks' survey conducted by the Central Bank of Jordan (CBJ) in June 2012, which showed the large demand by the banking sector for funding, especially the medium-size banks, ranging from JD200 million to JD440 million over the coming three years.

[4] IFC-led G20 Experts Group for SME Finance (2011).

Box 2: Recent Reforms Undertaken by the Jordan Authorities to Develop MSMEs

The Jordanian authorities have recently made significant strides to improve the enabling environment for the MSME sector. Key steps that have been taken include:

- Strengthening the capacity of financial institutions, banks, and Non-Governmental Organizations (NGOs)-MFIs, to enhance MSMEs access to finance.
- Finalizing a partial guarantee scheme with the US Overseas Private Investment Corporation (OPIC), which was led by the Ministry of Planning and International Cooperation, aiming at improving access to finance for medium enterprises.
- Preparing a National Startups and MSME Strategy, that is led by the Jordan Enterprise Development Corporation (JEDCO).
- Improving the business environment for SMEs, especially fast-growing innovative ones through regulatory reforms related to red tape, etc.
- Approving basic mobile phone payments, and the enactment of its guidelines.
- Working on adopting a comprehensive secured transactions law and the development of a collateral registry.
- Under a new revitalized management, the Jordan Loan Guarantee Corporation (JLGC) has refocused its attention on SME lending, developed a new Islamic product, and signed new agreement with three banks to extend guarantees to their SME lending.

The CBJ has also taken a number of key measures to improve SMEs access to finance. Main actions taken are:

- Strengthening the financial institutional infrastructure, including, lowering the threshold for reporting to public credit registry.
- In the process of establishing the first private credit bureau that would help in improving banks financial intermediation, and enhance the accuracy and timeliness of the information on client credit worthiness.
- Issuing Circular No. (10/5/436) dated 2011, setting a standard definition for SMEs.
- Modernizing the reporting and monitoring system for banks.
- Enhancing the capacity of banks to enable them to increase their share of lending to the MSME segment through adopting more advanced transaction-lending techniques.
- Licensing of new bank branches in Governorates that were underserved to reach out to the marginalized segment of enterprises.
- Entry of new Islamic banks to cater the growing needs for *Shar'ia* compliant products.
- The Association of Banks in Jordan has also developed a directory of products and services provided by banks operating in Jordan with a specific section dedicated to MSME products.
- Issuance of "Treating Customers Fairly Instructions", which aims at enhancing consumer protection.

All these measures had contributed to MSMEs growth and expansion in Jordan, and resulted in the emergence of a more positive enabling environment, which should help these enterprises in contributing to job creation, and overall economic growth.

19. The Jordanian authorities are committed to MSME development, and have undertaken significant reform measures to improve the enabling environment, and encourage its expansion with the objective of creating jobs (Box 2). Efforts have been exerted to address the various challenges confronting MSMEs development, as main creators of new jobs and employment opportunities. Improving their access to finance as well as their access to business development services have been a key priority on the Government's agenda. Given the overwhelming

preponderance of MSMEs in the Jordanian economy, it is important to support the sector as a means of boosting employment. Since these enterprises grow at faster rates once provided with sufficient funding, and a conducive environment, it is critical to support their growth. Moreover, high importance was given to Governorates outside Amman to promote growth in these districts, addressing any regional disparities. The Jordanian authorities are keen on improving peoples' standard of living, and maintaining social stability in the previously marginalized areas.

C. Higher Level Objectives to which the Project Contributes

20. There are several higher level objectives that the successful implementation of the Project will directly and indirectly achieve. Through contributing to an improvement in access to finance for MSMEs in Jordan, this operation will ultimately expand employment opportunities through the development of the private sector. In doing so, the operation will also create a demonstration of how improved financial intermediation to MSMEs can lead to sustainable private sector jobs, development of entrepreneurship capacities and contribution to overall economic growth and thereby reduction of poverty as well. In addition, this Project would be a good practice demonstration project that can possibly leverage additional funding resources for MSME lending from other sources that would enable replication and scaling up.

21. The Project will also indirectly: (i) enhance the banking system's capacity to evaluate the effectiveness of its MSME support; (ii) improve the incentives for banks to expand into MSME lending; (iii) incentivize and support the design of new financial products, and Islamic products in compliance with *Shari'a*; and (iv) ensure better opportunities for the remote, rural and underprivileged areas to meet citizens' needs and to establish income-generating projects with the objective of achieving sustainable and balanced development. The indirect outcomes will result partly from the conditions and requirements associated with accessing the line of credit, and partly, from the in parallel complementary technical assistance provided under the Regional MSME Technical Assistance Facility (Annex 8). The detailed eligibility criteria and appraisal format is provided in the Project Operational Manual (OM) and is discussed in Annex 9.

22. The proposed operation is closely aligned with the World Bank Group's Country Partnership Strategy (CPS) for Jordan (FY2011-2015) (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 supporting improvements in the business environment, and removing obstacles confronting MSME development. This includes facilitating private sector development through improving financial sector competitiveness and efficiency; and promoting inclusive growth and equity. The CPS envisions improving access to finance for MSMEs as a priority, which the proposed operation aims to achieve. The operation also fits with the second objective of enhancing inclusiveness through interventions to municipalities, and communities based on their needs, abilities and comparative advantage, as it will target marginalized governorates and poor areas.

23. The Project's objective is also aligned with the Bank and IFC's regional framework and strategy for the MENA region which has evolved to respond to the events of the Arab Spring and focuses engagement on inclusion, job creation and sustainable private sector-led growth. Through contributing to an improvement in access to finance for MSMEs in Jordan, this operation will ultimately expand employment opportunities through the development of the

Jordanian private sector. In doing so, the operation will also create a demonstration of how improved financial intermediation to MSMEs can lead to sustainable private sector jobs, development of entrepreneurship capacities and reduction of poverty, as well as contribute to overall economic growth.

II. PROJECT DEVELOPMENT OBJECTIVES

A. Project Development Objective (PDO)

24. The objective of the Project is to contribute to the improvement of access to finance for micro, small and medium enterprises in the Hashemite Kingdom of Jordan. The operation aims at increasing the MSME finance portfolio of participating financial institutions, while maintaining good asset quality measured by the NPL ratio in the MSME portfolio of participating banks. Through promoting this lending, the Project aims to ultimately contribute to job growth.

B. PDO Level Results Indicators

25. Project level Results Indicators that will be measured are:

(a) Number of MSME beneficiaries financed under the line of credit

(b) Overall MSME portfolio of participating banks

(c) Net NPLs for MSME portfolio for participating banks (90 days)

(d) Number of jobs created by MSME beneficiaries of the project

26. Intermediate indicators would also be tracked, including the volume of MSME lending by banks and the number of banks engaged in MSME lending. Additional intermediate-level indicators also capture the degree of support through the Project to particularly underserved segments where a stronger market failure exists. These segments include women, youth, and Governorates that are more remotely located. The indicators would be measured through monitoring the loans made to each such underserved segment, as a percentage of total loans under the Project. Finally, the intermediate indicators will also capture the degree of support to investment loans (long-term loans of greater than three years). Through such support to capital investment, the Project will support equipment purchase at the MSME level, which in turn is typically associated with enhanced productivity gains and with business and employment expansion efforts. The full list of indicators is provided in Annex 1.

C. Impact Evaluation

27. Overall, the Project will contribute to the creation of jobs and employment opportunities. It is critical to monitor the impact on employment at the MSMEs that had access to finance through the Project. This will be assessed through undertaking an Impact Evaluation (IE). The IE will assess the impact of the Project on a number of variables at the beneficiary MSMEs vis-à-vis a control group. These variables include, among others: turn-over, employment (disaggregated by gender), and sustainability. A baseline survey will be rolled-out at the end of the first year of implementation (see Annex 15 for questionnaire), and follow-up mid-term and end-of project survey will be subsequently rolled-out to the same beneficiary and control

group.[5] This impact evaluation would be undertaken by the World Bank in collaboration with the CBJ, and will be financed with existing resources under the Jordan MSME TA Facility.

28. Once the Project implementation starts, and the beneficiaries are identified, the survey will be rolled out to get the baseline, and determine characteristics to inform the control group. This can be done either by surveying all the beneficiary firms, or by doing it on a rolling basis—ask the banks to request each firm that receives a loan from the World Bank project to fill out the questionnaire. After the Project closes, the end-line survey will be conducted.[6]

III. PROJECT DESCRIPTION

A. Project Components

28. The proposed operation will be a FIL (as per the World Bank Operational Policy Directive OP 8.30 Financial Intermediary Lending) with one component (Lines of Credits) in the amount of US$70 million. The Lines of Credits will provide PFI loans to eligible PFIs for the purposes of on-lending as sub-loans to eligible beneficiaries or MFIs for the carrying out of sub-projects. The Bank loan will be channeled through the CBJ—the project implementing entity, which will be responsible for communicating the features of the loan to the financial intermediaries, appraising, negotiating and overseeing implementation of contracts with banks.

29. The operation will enhance the role of financial institutions in economic growth through financing and developing the MSME sector in Jordan. A special focus would be placed on providing increased long and medium-term financing for these enterprises' investment. Given the overall slowdown in MSME credit, the line of credit will also include working capital. The line of credit will encourage the growth and expansion of new and existing enterprises, as well as act as an incentive for enterprises, that previously refrained from accessing the formal finance market, to tap on it. The line of credit will not, however, support loan restructuring cases. The main clients will be the unbanked and existing clients that need longer maturity or additional financing. As mentioned above, a special focus would be on underserved segments.

30. The operation will comprise a line of credit channeled through the CBJ to banks that either have an active MSME portfolio or the willingness and capacity to develop one. The banks will then on-lend the funding directly to micro and small enterprises (MSEs) or MFIs that will on-lend to MSMEs. The participating banks could be incentivized through various mechanisms such as tenor, having access to training and capacity building under the MSME Regional Technical Assistance (TA) Facility and through enhanced amounts, in case the lending proposals support on-lending to those market segments that face the biggest market failures, such as lending to viable MSMEs in remote areas. To prevent over-concentration of lending in any one bank, a single exposure limit will be set and identified in the OM (see Annex 3 for more details.

31. ***Eligibility and appraisal.*** Eligibility criteria and the appraisal of funding proposals from banks will form the basis of deciding on which banks to lend to. The eligibility criteria will include financial soundness and performance indicators on capital, asset quality, and earnings and a minimum CAMEL (capital adequacy, asset quality, management performance, earnings,

[5] This questionnaire has been prepared in consultations with the Jordan Chamber of Industry and Jordan Chamber of Trade, as well as representatives from the private sector and MSMEs industry.

[6] In the India project, the baseline survey was done around one year after the start of implementation, and the endline survey was done close to project end.

liquidity, and market sensitivity) and ROCA (Risk Management, Operational Controls, Compliance and Asset Quality) rating of three (See Annex 9 and OM). Eligible banks will be selected for lending under the Project based on an appraisal of their proposals submitted to CBJ. Proposals will be assessed by CBJ based on an assessment of the quality of financial performance and management strength of the bank, the banks' strategy and plans for MSME portfolio growth, and quality of proposal, including in terms of the 'additionality' they entail in financing MSMEs–for example in introducing new products, reaching particularly underserved regions or new MSMEs, innovative use of delivery channels including MFIs.

32. ***Terms and conditions of lending to participating financial intermediaries***. Banks that are appraised and found satisfactory will then benefit from the line of credit. To promote good practices and ensure compliance with the Project's safeguards and fiduciary framework and its overall objectives, the funding will be associated with clear terms and conditions (Annex 9), including commitments to, and time-bound actions towards improving the quality and quantum of banks MSME lending. Such requirements are expected to lead to better quality MSME lending and serve as a demonstration for the broader banking sector to enhance their engagement in MSME lending and will include specific ratios and benchmarks.

33. Apart from liquidity that the line would provide to participating banks, it would also incentivize participation through the longer tenure of loans. Other incentives considered include incentivizing women entrepreneurs or microfinance clients, but if introduced would be subject to commercial principles and be back ended, following satisfactory debt servicing by the MSME.

34. ***Gender mainstreaming.*** The proposed Project both mainstreams gender through the main components, as well as, directly targets women through some innovative sub-components. The innovative sub-components of this Project that directly affect women, include designing new products that target women, encouraging banks to have special windows for women, especially in the marginalized Governorates where there are more social and cultural barriers. For the purposes of this operation, banks will need to collect gender disaggregated data on their lending, which is a rare practice in Jordan; this would be one of the Project's indirect positive impacts. Moreover, incentives could be considered to encourage women to tap in the financial sector for sustainability, rather than rely on family and friends (Annex 10).

B. Project Financing

36. ***Lending instrument.*** The proposed operation will be a FIL (as per OP 8.30) in the amount of US$70 million provided under IBRD terms.

37. As a Financial Intermediary Loan, with a line of credit, this proposed operation complies with OP 8.30. The CBJ has adequate capacity to implement the Project, and has established a well-staffed Project Implementation Unit (PIU) for overseeing the implementation of the Project. A sample of potential participating banks that were taken up for detailed review, were also found to be compliant, (Annex 13 provides more details). In summary, apart from the overall financial performance and management and governance being compliant with OP 8.30's provisions, the proposed lending from PFIs to MSMEs will be undertaken at market determined rates.

38. ***Project cost and financing.*** The total project cost from IBRD is US$70 million, which after deducting the front-end fees (US$175,000), would amount to US$69.825 million (Table 1). The Project comprises one component, which is a line of credit to MSMEs.

39. ***Retroactive financing.*** Retroactive financing will be allowed for eligible expenditures incurred between February 28, 2013 and the effectiveness date in an amount not to exceed US$14 million.

Table 1: Project Cost and Financing *(million US$)*

Project Components	Project Cost	IBRD Financing	Percent Financing
Line of credit to MSMEs	69.825	69.825	99.75
Total Baseline Costs			
Physical contingencies			
Price contingencies			
Total Project Costs			
Interest During Implementation			
Front-End Fees	0.175	0.175	0.25
Total Financing Required	70.00	70.00	100

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

39. The proposed Project design was underpinned by numerous analytical and diagnostic works. This includes the 2011 SME Jordan Financial Sector Assessment Program (FSAP) (Report No. 60140); the 2011 MSME Mapping and Gap Analysis; and the 2012 Jordan Investment Climate Survey, in terms of identifying areas of deficiencies and where support is required. The Project was also guided by regional reports, including the 2011 MENA Financial Sector Flagship Report entitled "Financial Access and Stability: A Roadmap for the Middle East and North Africa (Report No. 64937); the 2012 SMEs Contribution to Employment, Job Creation, and Growth in the Arab World that was launched jointly with the Arab Fund for Economic and Social Development (AFESD) in Kuwait; and the 2012 SMEs for Job Creation in the Arab World: SMEs Access to Financial Services report (Report No. 71551), which flag the challenges as well as the recommendations to expand the role of MSMEs in creating jobs, revealing the characteristics of fast growing enterprises in the Arab region, including Jordan.

40. Findings of global publications were also taken into account in project design, such as recent research by Ayyagari, Demirguc-Kunt and Maksimovic (2001), entitled, "Firms as Financial Intermediaries: Evidence from Trade Credit Data" (Report No. WPS2696), which shows that small and mature firms are important contributors to total employment and job creation, but suggests that their productivity and growth is held back by SME-specific constraints. The Project also benefitted from research conducted by McKinsey for the IFC-led G20 Experts Group on SME Finance (2011) which illustrated the significant financing gap for SME lending in MENA.

41. The design of gender mainstreaming in the operation has tapped on the recommendations put forward by the 2012 World Development Report, *Gender Equality and Development (Report No. 64665).* The report puts forward various interventions, including developing new products such as loans that are collateralized with equipment or based on cash flow—as well as training and strategic assistance for the staff of financial institutions to help banks increase their

number of female clients. Initial experience shows an increase in female entrepreneurs using financial services and taking out larger loans, with better than-average repayment.

42. The Project design also fully reflects lessons learnt from recent, ongoing, and completed World Bank Group activities and donor projects, international best practice in the MSME finance area, and also OP 8.30 Guidelines. This includes lessons learnt from similar operations in Egypt, Tunisia, Morocco, India, and other countries, as well as the Independent Evaluation Group's (IEG) assessment of World Bank Lending for Lines of Credit Report in areas including, accountability and management capacity of implementing entities; eligibility criteria for participating intermediaries to ensure their financial and operational quality, selection of monitoring indicators and adequate supervision during implementation, identification of suitable products and delivery mechanisms; allocation of funding for SME versus microfinance, addressing procurement issues, and the importance of effective donors coordination (Annex 12).

D. Other Related World Bank Group Activities

43. The proposed Project complements on-going World Bank Group activities, ranging from IBRD policy lending, to advisory services and technical assistance under the World Bank-IFC MENA Regional MSME Technical Assistance Facility, as well as the Consultative Group to Assist the Poor (CGAP) technical support. These activities are mutually reinforcing, and ensure more effective results on the ground.

44. ***Lending.*** The World Bank's programmatic Development Policy Loans (DPLs)[7] for Jordan support practices that aim at promoting private-sector driven growth. One of the policy measures was the credit information system through the establishment of the first credit bureau in Jordan.[8] This policy reform compliments 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.

45. ***World Bank-IFC MENA Regional MSME Technical Assistance Facility.*** The proposed operation will also be complemented in parallel by the joint World Bank-IFC MSME Regional TA Facility (a multi-donor Trust Fund), which provides technical assistance and advisory services under three pillars (Box 3), namely: (i) developing the enabling environment for MSMEs through supporting policy, legal and regulatory reforms to facilitate their access to finance, such as supporting CBJ in establishing the first private credit bureau, and assisting the Jordan Loan Guarantee Corporation (JLGC) in enhancing its operations development and sustainability; (ii) providing advisory services to financial institutions that serve MSMEs to attain a more inclusive system, specifically providing capacity building of banks with a focus on risk management and strengthening the corporate governance of banks; and (iii) building the capacity of MSMEs through entrepreneur networks, mentoring, and business incubator-type services.

46. Recent implementation support for the on-going activities of the MSME TA Facility, included following-up on: (i) setting-up and providing capacity building for Business Development Units (BDUs) to be established in the different governorates by JEDCO; (ii) capacity building program for banks in Jordan to cater to MSMEs demands; and (iii) support to

[7] The first DPL was approved by the Board on January 24, 2012 and the Bank is currently discussing the second DPL with the Jordanian authorities.
[8] The first credit information bureau license is expected to be awarded by the end of March 2013.

the JLGC in expanding its outreach and increase the impact of its SME-related products. In parallel, the MSME TA Facility has been investing in building the capacity of the CBJ as well as training banks to down-scale to MSMEs under the proposed Project.

47. A key activity is the development of BDUs at the different Governorates, with special focus on Maan and Taflieh in the South, Mafraq in the East, and Jerash and Ajloun in the North (see Box 4). Furthermore, under the MSME TA Facility, IFC conducted a three-day Advanced SME Banking training in collaboration with the Jordan Bankers' Association during the period December 10-12, 2012. The training was attended by loan officers of 12 banks and included 9 modules on SME lending. A follow-up workshop with CEOs of banks is planned at the end of March 2013.

Box 3: Jordan MSME TA Facility and Linkages to Project

The joint IFC-World Bank MENA Regional MSME Facility is currently actively operating in Jordan, where some tasks have already been delivered. The Jordan MSME TA Facility Child TF was set-up in September 2012. The main objective of the facility is to improve the business environment for MSME finance, build the capacity of financial institutions for sustainable financing, and support MSME business development services in Jordan. The activities covered by the trust fund contribute to a sustainable improvement in inclusive MSME development in Jordan and ultimately contribute to job creation and growth..

The four priority areas are: (i) capacity building of financial intermediaries—banks. This has, already started; (ii) capacity building of CBJ--establishing a Project Management Unit (PMU), an ombudsmen and issuing the required regulations; (iii) improving the regulatory framework, especially in underserved areas, and supporting the BDUs in the different Governorates; and (iv) improving the institutional framework (establishing the first private credit bureau, and modernizing the loan guarantee company, and CBJ setting a standard definition for SMEs).

Under ***Pillar One***, provide advisory services to: (i) JEDCO and Ministry of Planning and International Cooperation in reviewing the proposed SME Development Strategy and draft SME Law and ensure compliance with international best practices; (ii) CBJ in reviewing the current legal and regulatory framework for Islamic finance for SMEs, and assist the authorities in making it more conducive to SME lending; (iii) private credit bureau; and (iv) draft a new Secured Transactions Law, and assist in the establishment and operationalization of a collateral registry. The latter two activities have already started.

Under ***Pillar Two***, provide technical assistance to: (i) refine JLGC's existing SME loan guarantee products and develop new products that are tailored to SMEs and are based on proper risk analysis which address the issues of moral hazard and adverse selection (this activity has already started); (ii) Jordan Bankers' Association (JBA) in Islamic SME lending; and (iii) banks in order to help them provide better services to the MSME sector through their SME Banking program.

Under ***Pillar Three***, technical assistance will focus on: (i) capacity building and training to the BDUs that JEDCO will establish in the different Governorates (this activity has already started); and (ii) capacity building to SMEs for developing their business management skills under the umbrella of 'Business Edge'.

The Bank and IFC are currently providing technical assistance which is, in parallel, leading to enhancing the outcome and impact of the proposed operation in the following ways: the proposed advisory services to CBJ will help in implementation of the project, while the capacity building of banks will help them to downscale to SMEs and enter new SME segments which they can finance under the operation. The assistance to JLGC will help them offer a guarantee product to the participating banks, and assistance to the BDUs will help in the operation's outreach outside Amman.

48. ***InfoDev technical assistance.*** InfoDev will design and execute 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.

49. ***CGAP Advisory Services.*** In addition, CGAP has also been providing advisory services to the CBJ on their "Treating Customers Fairly Instructions", which were issued on October 31, 2012. Such measures are aimed at enhancing consumer protection in Jordan and are likely to indirectly benefit the Project. Moreover, CGAP supported the Ministry of Planning and International Cooperation to develop the first Microfinance National Strategy.[9] CGAP also provided capacity building of the Cairo-Amman Bank to help them downscale and begin their micro finance operations. Diagnostic works was conducted on the regulatory and branchless banking in Jordan, and CGAP provided recommendations on means of improving the microfinance regulatory framework in Jordan, which would support the authorities, and more recently the central bank's efforts to consider the possibility of regulating the sector.[10]

Box 4: Business Development Units in Governorates

As per the request of the Ministry of Planning and International Cooperation, and JEDCO, the Bank is providing capacity building and training to the BDUs that JEDCO will establish in the different Governorates. These BDUs will aim to enhance the business environment through providing advisory services to SMEs in order to improve their ability to start business, register, access finance, prepare financial statements and business plans. The BDUs will also offer SMEs, capacity building, skills training, work-ethics development, and business development services to grass-roots and marginalized entrepreneurs and linking them to sources of funding. Under the MSME TA Facility, the World Bank will provide technical assistance and training to the BDUs as well as to entrepreneurs, with a focus on SMEs that are dominant in these areas. Priority Governorates in the first two years are: Maan and Taflieh in the South, Mafraq in the East, and Jerash and Ajloun in the North. The Bank has already started working with JEDCO on developing a plan to map-out the services of these proposed BDUs and to design their product and service offerings.

50. Hence this operation should be seen as part of a package of parallel assistance that includes liquidity to SMEs through a line of credit, capacity building for improving the enabling environment, technical assistance to financial institutions on SME lending, and help to SMEs in the outlying areas of the country. This package of assistance is a best practice package to help unlock the market for lending to MSMEs and improve the access of job-creating enterprises to liquidity and much needed funding. 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 that given by other donors, and more important, is that the extension of liquidity to this sector in the form of loans (which is more sustainable than grants) is not being undertaken by other donors.

E. Coordination with Development Partners

51. The Bank has been coordinating very actively with the donor community over the past year. In addition to the stock-taking exercise which involved the donors and was done in consultation with them, the Bank has been organizing periodic round-table discussions with the

[9] http://www.cgap.org/blog/new-policy-framework-inclusive-finance-Jordan.
[10] http://www.microfinancegateway.org/p/site/m/template.rc/1.9.34006.

key development partners to ensure that all parties are kept abreast of recent activities. At the request of the Ministry of Planning and International Cooperation, the Bank discussed and agreed with the donors to establish a system of monthly meetings, which will be coordinated by the Bank the first year, to be followed by an annual workshop for all the relevant stakeholders in Amman. This newly-agreed on mechanism falls in line with the spirit of the Deauville Partnership.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

52. The Ministry of Planning and International Cooperation, in agreement with the Ministry of Finance have designated the CBJ as 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 system in Jordan (which constitutes the vast majority of the financial system), composes 22 commercial banks and four Islamic banks. There are no development banks in Jordan (unlike in Turkey or India), no SME-focused development banks and no state-owned banks. Hence the most effective way to reach MSMEs is through banks. Since there is no viable or sound apex institution, the best way to channel funds through banks is through the central bank. Such a project structure is much more efficient than a structure involving individual participation agreements with each participating bank, as it helps assign clear accountability and reporting duties to one institution, ensures better coordination during implementation, and facilitates project monitoring and supervision.

53. The OM acceptable to the Bank has been prepared by CBJ. The OM includes, among other things, the agreed financial management (FM) and disbursement arrangements; procurement arrangements; *Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants, dated October 15, 2006 and revised January 2011*; and a detailed framework for the continuous measurement and monitoring of outcomes, a key element in ensuring effective implementation.

54. The CBJ has established a PIU headed by the Acting Executive Manager of the Financial Stability Department, and comprising representatives from the Data Analysis Division, the Studies and Licensing Division, the Legal Department and Investment, and the Foreign Operations Department. The PIU is mandated to oversee and implement the Project in line with the implementation arrangements detailed in the OM. The CBJ will be responsible for ensuring compliance of project activities to the fiduciary and safeguards arrangements for the project. Given its financial capacity and track record based on the OP 8.30 review (see Annex 13), the CBJ is well placed and has the capacity to implement the project and ensure compliance during implementation.

55. The CBJ will channel the funds to the banks in accordance with the eligibility criteria and procedures outlined in the OM. There will be a subsidiary agreement signed between the Borrower and the CBJ whereby the Borrower on-lends the proceeds of the loan to the CBJ for implementation of the Project under terms and conditions acceptable to the Bank. Funds would be received in the CBJ's main account and disbursements will be made on a reimbursement basis using interim unaudited financial reports (IFRs)—evidencing actual expenditures—prepared by the CBJ. IFRs will be submitted on a quarterly basis, but the CBJ would have the

flexibility to seek reimbursement earlier than the quarterly intervals by submitting reports for shorter periods. All the above will be coordinated by the PIU, and reported to the CBJ management.

56. All assessments of the CBJ have shown that it has adequate financial management systems and procedures to generate the quarterly IFRs in the agreed upon formats, detailed in the OM. Procurement under the Project is limited to the TA component.

57. An Environmental and Social Management Framework (ESMF) has been developed to identify, minimize, avoid, screen out, mitigate and monitor potential social and environmental impacts in compliance with both World Bank policies and Jordan's applicable laws and regulations. The ESMF will be applied by the banks in the selection and supervision of MSME sub-projects to be financed. The ESMF was disclosed prior to appraisal, and was adopted by the CBJ. The CBJ's capacity to monitor, evaluate and report on the ESMF is modest although the CBJ has dealt previously with social and environmental safeguards issues.

58. 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 MSME finance and microfinance, including donor agencies, will be undertaken during supervision missions.

59. Banks will be required to distinguish between lending to MSME and to MFIs, notably in their reporting requirements in terms of number of beneficiaries reached. The number of microfinance clients served through banks on-lending to MFIs should be reported separately.

B. Results Monitoring and Evaluation

60. A strong monitoring and evaluation (M&E) framework to track inputs, outputs, and outcomes in a systematic and timely fashion has been developed, and agreed with the CBJ (Annex 1). Project outcomes and outputs will be monitored through periodic reporting by the CBJ—which has considerable capacity in monitoring given its role as a central bank, in addition to its experience of handling previous donor projects. Data will be collated by the CBJ which in turn will collect mainly from the participating banks. Some of the data will be generated through independent baseline and follow up surveys to be undertaken. In addition, data sources for project monitoring will include supervision efforts of the PIU as well as implementation support missions undertaken by the World Bank team. The midterm review (MTR) of the Project will entail an update of an institutional assessment of the CBJ and PFIs, including on management, appraisal standards, and portfolio quality.

61. The Project would carry out annual supervision of a sample of sub-projects, including cumulative impacts and impacts on labor safety and conditions. Indicators broad enough to cover all sub-project types, that measure multiple impacts, and are simple to collect would be used by the Project, monitored by the external auditors of the banks, and collected by the PIU. They include number of sub-projects in compliance with national and World Bank environment regulations and policies at approval and at one, two and three years after startup (i.e. the number of projects correctly being compliant with the Project safeguards framework). Sub-projects would also carry out their own monitoring and supervision, by monitoring indicators appropriate to impacts, such as air quality, water quality, and impact on biodiversity.

C. Sustainability

62. Project sustainability will be facilitated by the Jordanian Government's strong commitment to increase access to finance to MSMEs and financial institutions' increasing focus on the MSME segment. The Jordanian Government has undertaken significant reform measures to improve the enabling environment for MSMEs, and encourage their expansion with the objective of creating jobs as presented in Box 2. The establishment of a credit bureau and developing the law on secured lending will be supported by the MSME TA Facility and will reduce the constraints on bank lending to small enterprises and improve the quality of lending and increasing the sustainability of improvements in access to finance.

63. Furthermore, the line of credit will focus on the best performing banks as defined by scale, portfolio quality, institutional capacity and a medium to long-term strategy which includes focusing on micro and SME lending. This approach will promote strong finance providers capable of operating efficiently on a large scale, and widen the range of loan products offered and would also encourage other providers to improve their capacity.

IV. Key Risks and Mitigation Measures

A. Risk Ratings Summary

Table 2: Risk Ratings Summary Table

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

B. Overall Risk Rating Explanation

64. The operation's risks and specific measures identified to reduce them were carefully assessed during preparation and appraisal. The overall project risk has been rated as Moderate in terms of risk due to the current political and economic environment in Jordan and the region. The high potential impact and need for the proposed activities justify the Project and its interventions. The potential risks include:

65. ***Project stakeholder risks.*** Project stakeholder risks include: (i) the risk that financial institutions that do not meet the eligibility criteria will lobby against the Project; (ii) the risk of instability in the region and its implication on Jordan; and (iii) the risk of a lack of coordination between the large number of donors and development agencies that are working on financial inclusion in Jordan.

66. ***Implementing agency risks.*** Implementing agency risks include the potential risk associated with the lack of capacity on the part of the CBJ to on-lend to banks as this is not their regular line of business, as well as, the risk of the lack of capacity of the banks themselves to serve MSMEs adequately.

67. ***Project risks.*** Project risks includes risks associated with project design, such as the risk that the banks may not be able to absorb the financing from the line of credit, the risks regarding projects being funded under this loan having negative impacts on the environments, and finally, sustainability risks associated with the risk that the line of credit will not necessarily sustain improvements in access to finance given lingering deficiencies in credit information and the collateral regime.

68. Means of mitigating all the above risks are outlines in the Operational Risk Assessment Framework (Annex 4).

V. APPRAISAL SUMMARY

A. Economic and Financial Analyses

69. MSMEs provide employment and income for significant proportions of labor in the rural and urban areas. A major advantage of the MSME sector is its employment potential at low capital cost. Furthermore the labor intensity of this sector is much higher than that of the large enterprises. MSMEs are increasingly seen as an essential ingredient in promoting inclusive growth, improving the well-being of the poor and women by providing significant income and employment generating opportunities. For MSMEs to be successful in improving competitiveness, growing sales and jobs, and contributing more broadly to economic growth, they need access to appropriate working capital loans, investment financing, risk capital, trade finance, and other financial services. Restricted access to finance constrains MSME expansion of capacity, adoption of innovations, and ability to look for and take advantage of new market opportunities, which in turn prevents the increases in competitiveness and employment that the region needs. The proposed line of credit directly addresses these constraints.

70. The Project is expected to: (i) lower the costs and risks of MSME lending, which would in turn result in both increased access to finance and enhanced stability of the financial system; (ii) help initiate a systemic change in the perception of the bankability of MSMEs, which will lead to expanded and sustainable credit through a demonstration effect; (iii) enable MSMEs to improve competitiveness and increase employment or incomes; (iv) improve governance and opportunity in the private and financial sector, with MSMEs accessing financing based on transparent selection criteria and on better quality information; (v) decrease the level of informality, as firms have to comply with tax and other legislation to get access to loans; and (vi) increase MSME access to credit during a challenging period for the financial sector and economy, thereby increasing the number of enterprises likely to survive until during the economic slowdown.

71. The loan design supports improved economic governance in Jordan through maintaining access to finance flows, and opening up access to finance for enterprises beyond the established corporate sector. The eligibility criteria will help ensure access for smaller firms, and for firms in underserved regions. Technical assistance and policy lending will support reforms that enable financial institutions to lend to enterprises that are not existing bank customers, and that do not have land or property to offer as collateral, and reforms that promote competition between financial institutions to better serve the MSME sector.

B. Technical Analysis

72. The proposed operation will be a FIL in the amount of US$70 million. The Bank loan will be channeled through the CBJ, which will be responsible for communicating the features of

the loan to the financial intermediaries and negotiating loan contracts. The CBJ will on lend to banks that either have an active MSME portfolio or the willingness and capacity to develop one. The banks will then on-lend the funding directly to MSEs or MFIs that will on-lend to MSMEs. Lending will only take place if the potential bank meets specific eligibility criteria that is acceptable to the World Bank and that were designed and agreed upon with the Jordanian authorities.

73. The operation will enhance the role of financial institutions in economic growth through financing and developing the MSME sector in Jordan, as well as, provide a special focus on increased long and medium-term financing for these enterprises' investment, and working capital. The line of credit will also encourage the growth and expansion of new and existing enterprises, act as an incentive for enterprises that previously refrained from accessing the formal finance market to tap on it. The main clients will be the unbanked and existing clients that need longer maturity or additional financing.

74. The line of credit will be implemented in parallel with technical assistance under the MENA MSME Facility. Hence this operation should be seen as part of a package of assistance from the World Bank Group that includes liquidity to MSMEs through a line of credit, capacity building for improving the enabling environment, technical assistance to financial institutions on MSME lending, and help to MSMEs in the outlying areas of the country. This package of assistance will help unlock the market for lending to MSMEs and improve the access of job-creating enterprises to liquidity and much needed funding. 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.

75. Apart from liquidity that the line would provide to participating banks, it would also incentivize participation through the longer tenure of loans. Other incentives could be considered such as incentivizing women entrepreneurs, but if introduced would be subject to commercial principles and be back ended, following satisfactory debt servicing. Subject to adherence to eligibility criteria, the banks' proposals would be evaluated in light of the 'additionality' they entail in financing MSMEs–for example in introducing new products, reaching particularly underserved regions or new MSMEs, innovative use of delivery channels, etc. Such requirements are expected to lead to better quality MSME lending and serve as a demonstration for the broader banking sector to enhance their engagement in MSME lending and will include specific ratios and benchmarks.

C. Financial Management

76. The World Bank undertook an assessment of the FM systems within CBJ, being the implementing entity of the Project. A sample of four commercial banks operating in Jordan was appraised against the OP 8.30 criteria. The assessment concluded that, with the implementation of agreed-upon actions, the proposed FM arrangements will satisfy the minimum requirements under OP/BP10.02 on FM and OP 8.30. Annexes 3 and 13 provide additional information on the FM assessment and the recommended mitigation measures. The detailed financial management capacity assessment and arrangements are available in the Project file.

77. The Bank loan will finance 100 percent of the credit line that is proposed to be channeled through the CBJ to PFIs, which will then on-lend the funding to MSMEs. A PIU has already been established within the CBJ, which will be responsible for the overall financial management of the Project, including disbursement, submission of quarterly consolidated IFRs, and

interaction with project auditor on any audit issues and their follow up. Each of the commercial banks will open separate sub-accounts to deposit in and pay from the funds received from the CBJ under the Project. The CBJ will be reimbursed against the actual funds provided to PFIs from its own budget. Funds from the World Bank will be received in CBJ's main bank account and therefore no Designated Account (DA) will be open for the Project. Deposits from the World Bank to the CBJ will be made upon submitting withdrawal applications for reimbursement supported by the IFRs.

78. The PFIs, receiving funds from the line of credit, will exercise their own due diligence with consideration to the principles of economy, efficiency, and transparency to assess the creditworthiness and eligibility of the MSMEs applying for a loan under this operation. The PFIs will be responsible for disbursing the funds to the MSMEs as well as for maintaining the necessary books and records related to such disbursements. The minimum acceptable eligibility criteria for PFIs as outlined in Annex 9 are also outlined in the OM of the Project. The OM spells out the Project's financial management requirements and eligibility criteria for PFIs in details, including the minimum requirements for transparency, monitoring and oversight, financial reporting, and internal controls both at the CBJ and the PFIs levels. The OM also spells out the arrangements for public access to information on the eligibility of the credits provided and beneficiaries, and effective complaint handling system including a hot line at the CBJ to ensure that an effective mechanism to file complaints and report irregularities will be in place.

79. The PFIs will be responsible for all financial transactions, accounting and reporting related to the funds they will receive from the CBJ for on lending purposes. The PFIs receiving funds from the line of credit will be responsible for disbursing them to MSMEs as well as for maintaining the necessary books and records relating to such disbursements. The PFIs will monitor the use of funds by MSMEs through their standard loan monitoring systems to ensure that the disbursed funds are utilized for their approved and intended purposes. The PFIs will submit within 30 days after the end of each calendar semester, IFRs to the CBJ detailing the disbursement to MSMEs. The IFRs will be prepared in accordance with World Bank's Guidelines. The PIU will prepare consolidated IFRs for submission by no later than 45 days after the end of each semester. An external auditor, acceptable to the World Bank, will be maintained based on Terms of Reference (TOR) acceptable to the Bank to Audit project financial statements. As part of the annual review conducted by the CBJ on the banks operating in Jordan, the PFIs will be subject to a special purpose review by CBJ's "Banking Supervision Department" to ensure that disbursements by PFIs are eligible. The special purpose review, using a representative sample of MSMEs, will ensure that the sub-loans granted during this period by PFIs to MSMEs meet the eligibility criteria notified by the CBJ. Annually, the PFIs will furnish to the CBJ a copy of their annual audited financial statements and project audit.

D. Procurement

80. Procurement under the project would be carried out in accordance with the Bank's Procurement Guidelines: "Guidelines: Procurement of Goods, Works, and Non-consulting services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011. This is an on-lending operation, where the loan is channelled through the CBJ and on-lent to commercial banks and then to the beneficiary MSMEs to use for number of loan types including working capital and investment loans. It is very difficult to determine the final MSME beneficiaries at this stage since they have yet to be selected by participating banks.

However, information gathered from the commercial banks show that they are exercising their due diligence at various stages of the process to ensure viability of the selected MSMEs, as well as adopting principles of economy, efficiency and transparency to assess the creditworthiness and eligibility of the MSMEs applying for loans under this operation.

81. Loans to MSMEs will be mostly used to increase their working capital but for the limited procurement financed by this loan and undertaken by the MSMEs, paragraph 3.13 of the Procurement Guidelines would apply allowing the use of private sector or commercial practices. The OM describes the basic guiding procurement principles, the established acceptable methods allowing shopping or/and direct contracting to be followed, procedures, and commercial practices.

82. Based on its design, the Project will only provide loans to the beneficiary MSMEs and no PIU related procurement pertaining to goods or hiring of staff is envisaged under this Project, therefore capacity assessment for the implementing agency to carry out procurement was not required. Furthermore, a procurement plan will not be needed given the nature and design of the Project.

E. Social Safeguards

83. This Project will not involve population relocation, involuntary land acquisition and any negative impacts on livelihoods for financing by banks and MFIs. In addition, this Project will not include construction resulting in restriction to access of legally designated parks and protected areas. To ensure the above, this will be specified in the "negative list" of the OM and in the eligibility criteria. A lending bank credit officer initiates the loan appraisal process, examines information submitted by the MSME to ensure that the client submission includes satisfactory clearances (Central Licensing Committee, of which the Ministry of Environment is a key member) accompanies the application (citing stipulation of condition for No-Objection, initial Environmental Impact Assessment (EIA), or full EIA Report). Due diligence by the credit officer would include review of the above documentation. The CBJ will be responsible to ensure the necessary compliance of borrowers, banks, and financial intermediaries.

84. Sub-projects supported by this Project are expected to have primarily positive social impacts. The MSME TA Facility more broadly, is intended and expected to lead to increased investment and increased indirect labor demand in the medium-long term. In general, the gender empowerment and access to finance MSME, youth employment, poverty and social impacts of increased investment will be positive, through the benefits of induced economic growth, and through the direct provision of MSME services. However, there is a potential risk that MSMEs taking on debt for the first time may not understand the risks of over indebtedness nor have the capacity to know how to manage their loans. The banks and financial institutions that the CBJ will lend to under this Project may not have experience lending to these groups. This Project will attempt to overcome this risk through ensuring that the borrowing banks will be screening clients. No additional negative social implications are expected.

85. CBJ has established a grievance mechanism that provides a way to offer communities an effective avenue for expressing concerns, achieving remedies, and promoting a mutually constructive relationship. CBJ has identified a central point for coordination within in CBJ to address concerns related to the Project. CBJ will make available to the public (including MSMEs, banks, PFIs) how and who to contact through the website, application process and in newspaper advertisements of the Project. CBJ will be responsible to respond to complaints in

writing or by phone within two to three weeks of the complaint. A record will be kept of the complaints and how they were responded to. CBJ will periodically monitor the grievance mechanism to evaluate and improve its effectiveness.

86. The Project team has held initial consultations in Jordan with potential PFIs (commercial banks), ministries (Ministry of Planning and International Cooperation, Ministry of Finance, Ministry of Industry and Commerce) and other Government bodies (Central Bank of Jordan, the Jordan Chamber of Industry), financial intermediaries (Tanmeyah—Jordan Microfinance Network, Tamweelcom, Microfund for Women) to present the proposed Project structure to relevant stakeholders and to get their feedback on its design in order to get their views on the constraints for MSMEs, the proposed FIL, as well as their ideas on and potential partnership in the provision of technical assistance to MSMEs. All financial institutions will be notified of the availability of funds. This information will outline the conditions of eligibility of loans under the Project.

87. Additional consultations on the ESIA/ESMF were carried out with a wider range of stakeholders (Ahli Bank, Arab Bank, Cairo Amman Bank, Arab Banking Corporation, Al Ahli Microfinance Company as well as the Jordan Chambers of Trade and Industry).

88. ***Borrower's institutional capacity for safeguard policies.*** The proposed Project will be implemented by the existing PIU at CBJ. Therefore, the CBJ will be responsible for implementation of contracts, and the PIU will report to the Bank on implementation, including compliance with ESMF. The CBJ will be accountable for the monitoring and reporting on safeguards issues. The PIU will be responsible to aggregate information on compliance with the ESMF, and include as a section in the reporting to the World Bank. The capacity of the CBJ on World Bank environmental and social safeguard policies, requirements, and reporting will be strengthened.

89. The CBJ will be responsible for training lending banks in monitoring and implementation of the Project and safeguards issues. Training will be provided to the lending banks to aggregate needed reports from the respective authorities or else allocate funds to conduct such report generation and aggregation. In addition, lending banks will be responsible for supervision and thereby ensuring that all project works are in compliance with the ESMF. Since not all borrowers are familiar with implementation of the monitoring system, institutional and training will be provided as noted in the OM. The lending banks need to report to CBJ, the progress of implementing mitigation measures within the timeframe and capabilities agreed with the Bank. Such monitoring reports should contain information about: types of activities undertaken by MSMEs, number of site visits conducted, number and types of problems uncovered according to the agreed key performance indicators, and other good practices seen evident in the field. The MSMEs, PFIs, and CBJ need social safeguards capacity to implement and monitor Bank safeguards policies (details provided in Annex 14). This will cover screening, impact assessment, preparation of ESMPs, monitoring, reporting and carrying out spot environmental audits.

F. Environment (including Safeguards)

90. The Project is classified as Category "FI", according to World Bank Safeguard and Environmental & Social review procedures. This is a Category FI project which involves investment of Bank funds through a financial intermediary, in sub-projects that may result in adverse environmental impacts.

91. An ESMF (Environmental and Social Management Framework) has been developed to identify, minimize, avoid, screen out, mitigate and monitor potential social and environmental impacts in compliance with World Bank Policies, and the Jordanian applicable environmental laws and regulations. The ESMF will be applied by the banks in the selection and supervision of MSMEs and sub-projects to be financed. The ESMF is an integral part of the Operational Manual.

92. The ESMF consists broadly of: (i) a screening mechanism to determine the environmental category of the sub-project; and (ii) impact assessment and mitigation. For its application to Jordan, assessment and mitigation measures would be done according to the Jordanian environment law and Bank's safeguards. The ESMF has been prepared to the satisfaction of the Bank and was disclosed in Jordan in English and an executive summary in Arabic on the CBJ website on October 24, 2012 and to the public by the World Bank Infoshop on the same date.

93. Impact minimization and mitigation measures would therefore be prepared by MSMEs working with PFIs. In most cases, the negative environmental impacts that may be generated by the sub-projects would be easily mitigated by complying with national law and through the implementation of the ESMF, which includes a screening mechanism against common environmental impacts such as the generation of waste, wastewater, dust, noise, disturbance to traffic, potential injury to personnel, negative impacts on flora and Fauna, habitat endangering, negative impacts on archaeological sites, land degradation, etc., according to applicable Bank safeguards. It is anticipated that for sub-projects with negative impacts, in most cases, the preparation and implementation of subproject-specific Environmental and Social Management Plans (ESMPs) would be sufficient. If sub-projects are categorized according to Jordan EIA regulation No. 37/2005—as CI or II, environmental action would be required. More details specific to the Jordan environmental assessment process are in the OM, in a flow diagram entitled "procedure flow for E&S risk management system."

94. In Jordan, environmental approval for projects is provided by the Ministry of Environment's EIA regulation no. 37/2005 which categorizes projects according to impact: Category—CI projects are subject to EIA, with social safeguards embedded in the EIA. The Ministry of Environment under the obligation of providing an opinion on the EIA within 14 days of receiving the EIA; Category—CII projects require an initial environmental assessment and are subject to standard mitigation procedures while Category III projects require no environmental analysis.

95. The current system in place for ensuring environmental and social safeguards compliance in Jordan is through the existing Jordanian environmental protection law (EPL) no. 52/2006. The system is implemented through the EIA Regulation no. 37/2006 and its five annexes. This regulation assigns full authority to the Ministry the Environment through the Central Licensing Committee and has guidance to arrange for screening, control and follow up on the EIA process and its implementation. Thus existing national compliance system will ensure compliance with the environmental and social safeguards requirements of the World Bank. To ensure and audit the screening process, the Bank environmental and social safeguards specialist would periodically visit the CBJ to inspect/audit environmental and social safeguards compliance documentation obtained from the lending banks and retained by CBJ through regular reporting by the lending banks to CBJ.

96. After screening and approval of the impact assessment by the Ministry of Environment, the sub-project is cleared for financing under the Project. Mitigation actions would be specified as an Annex to the impact assessment, which would include: impact; mitigation; party responsible for mitigation; monitoring indicator; indicator; timing; cost.

G. Other Safeguard Policies

97. Proof of completion of the screening and review procedures carried out by the Ministry of Environment should accompany the loan application before sub-projects are financed order to prevent funding of economic activities with negative impacts on human development and the environment.

98. Category A (WB)/Category I (Jordan) sub-projects would not be eligible; furthermore, sub-projects that trigger OP/BP 4.04 (Natural Habitats), OP 4.12 (Involuntary Resettlement), OP/BP 4.36 (Forests), OP/BP 4.37 (Safety of Dams), OP/BP 7.50 (that affect International Waterways) and OP 7.60 (Disputed Areas) would not be eligible for financing; OP 4.10 (Indigenous People) would not be triggered.

ANNEX 1

RESULTS FRAMEWORK AND MONITORING

Hashemite Kingdom of Jordan: MSME Development for Inclusive Growth Project (P132314)

PROJECT DEVELOPMENT OBJECTIVE (PDO): The objective of the Project is to contribute to the improvement of access to finance for micro, small and medium enterprises in the Hashemite Kingdom of Jordan

PDO Level Results Indicators	Core	Unit of Measure	Baseline	Cumulative Target Values				Frequency	Data Source/ Methodology	Responsibility for Data Collection
				YR 1	YR 2	YR3	YR 4			
Number of MSME beneficiaries financed under the line of credit	☒	Number	0	500	1000	1,500	2,000	Annual	CBJ Report	CBJ
Overall MSME portfolio of participating banks	☒	%	0	5	10	15	20	Annual	Annual Reports	CBJ/Participating Banks
Net NPLs for MSME portfolio for participating banks (90 days)*	☒	% Weighted Average	6	6	5.5	5	4	Annual	Annual reports	CBJ/Participating Banks
Number of jobs created by MSME beneficiaries of the project	☐	Number	0	N/A	1,500	N/A	4,000	Baseline, Midterm and End of Line	Impact Assessment	World Bank
INTERMEDIATE RESULTS										
Intermediate Result										
Volume of the lending to MSMEs under the line of credit	☒	US$ million	0	34	68	70	70	Annual	CBJ Report	CBJ
Number of banks engaged in MSME lending under the line of credit	☐	Number	0	2	3	5	5	Annual	CBJ Report	CBJ
Youth-owned businesses as a percent of total businesses served by the line of credit Do you have a definition for "youth"? **	☐	%	0	2	3	5	10	Annual	Annual Reports	Participating Banks/CBJ
Women-owned businesses as a percent of total businesses served by the line of credit	☒	%	0	5	10	20	35	Annual	Annual Reports	Participating Banks/CBJ
Enterprises in governorates other than Amman as a percent of total businesses served by the line of credit	☐	%	0	5	8	12	15	Annual	Annual Reports	Participating Banks/CBJ
Number of term loans*** (investment credit) to MSMEs under the line of credit	☐	Number	0	300	500	750	1000	Annual	CBJ Report	CBJ

* Gross NPL less loan loss provision.

** For the purpose of this project, youth will be defined as those below the age of 35.

*** A term loan of more than one year maturity.

ANNEX 2

DETAILED PROJECT DESCRIPTION

1. The proposed operation will be a FIL (as per OP 8.30) in the amount of US$70 million. The Bank loan will be channeled through the CBJ—the Project implementing entity—which will be responsible for communicating the features of the loan to the financial intermediaries and negotiating loan contracts.

2. The operation will enhance the role of financial institutions in economic growth through financing and developing the MSME sector in Jordan, as well as, provide a special focus on increased long and medium-term financing for these enterprises' investment, and working capital. The line of credit will also encourage the growth and expansion of new and existing enterprises; act as an incentive for enterprises that previously refrained from accessing the formal finance market to tap on it. The line of credit will not, however, support loan restructuring cases. The main clients will be the unbanked and existing clients that need longer maturity or additional financing.

3. The operation will be comprised of a line of credit that will be channeled through the CBJ to banks that either have an active MSME portfolio or the willingness and capacity to develop one. The banks will then on-lend the funding directly to MSEs or MFIs that will on-lend to MSMEs. Lending will only take place if the potential bank meets specific eligibility criteria that is acceptable to the Bank and that will be designed and agreed upon with the Jordanian authorities based on similar operations elsewhere in the region.

4. Access to the line of credit will be subject to eligibility criteria and clear terms and conditions, including commitments to, and time-bound actions towards, improving the quality and quantum of bank MSME lending. They will include specific ratios and benchmarks that will be designed with the CBJ and will need to be met in order for the bank to receive the loan under the operation.

5. Apart from liquidity that the line would provide to participating banks, it would also incentivize participation through the longer tenure of loans. Other incentives could be considered such as incentivizing women entrepreneurs, but if introduced would be subject to commercial principles and be back ended, following satisfactory debt servicing. Subject to adherence to eligibility criteria, the banks' proposals would be evaluated in light of the 'additionality' they entail in financing MSMEs–for example in introducing new products, reaching particularly underserved regions or new MSMEs, innovative use of delivery channels, etc. Any actions for improving their MSME business could be considered for parallel support under the World Bank-IFC MENA Regional MSME TA Facility. Such requirements are expected to lead to better quality MSME lending and serve as a demonstration for the broader banking sector to enhance their engagement in MSME lending and will include specific ratios and benchmarks.

6. The proposed Project both mainstreams gender through the main components, as well as, directly targets women through some innovative sub-components. The innovative components of this Project that directly affect women, include designing new products that target women, encouraging banks to have special windows for women, especially in the marginalized Governorates where there are more social barriers. For the purposes of this operation, banks will need to collect gender disaggregated data on their lending which is a very rare practice in Jordan and one of the Project's indirect positive effects. Moreover, incentives could be considered to encourage women to tap on the financial sector for sustainability, rather than rely on family and friends.

ANNEX 3

IMPLEMENTATION ARRANGEMENTS

A. Project Institutional and Implementation Arrangements

1. The Project will be implemented by the CBJ. The CBJ is an independent entity by Law No 23 of 1971. The line of credit is channeled through the CBJ to banks because the banking system in Jordan (which constitutes the vast majority of the financial system) is composed of 22 commercial banks and four Islamic banks. There are no development banks (unlike in Turkey or India), no SME-focused development banks and no state-owned banks. Hence the most effective way to reach MSMEs is through banks. Since there is no viable or sound apex institution, the best way to channel funds through banks is through the central bank. In addition to the above, the request received from the Ministry of Planning and International Cooperation stated that the CBJ would be the implementing entity based on consultation and consensus reached between the relevant ministries, and stakeholders (banks, and NBFIs), etc.

2. While there is a possible conflict of interest, in light of the economic slowdown, tightening liquidity for most of the banks, and the lack of viable and sound apex institutions, the CBJ needs to undertake this role. The alternative is that the much needed opportunity to spur growth and respond to the crying need of SMEs does not get addressed. The Project Operational Manual (OM) will set out clear eligibility criteria that will inform all lending from the CBJ to the banks. Furthermore, no state-owned banks exist in Jordan and as such, the CBJ has neither motivation to prefer nor potential interest in one bank over another. Lastly, CBJ has a long history of capable supervisory abilities and the rules of the supervision function for all banks would remain unchanged.

B. Financial Management, Disbursements and Procurement

3. **Financial Management.** The project is designed to finance the needs of MSMEs meeting the eligibility criteria, by channeling funds through eligible PFIs. The Bank loan will finance 100 percent of the credit line for PFIs that will in return provide eligible sub-loans to MSMEs. The PIU, established within the CBJ, will be directly involved in implementing the credit line, monitoring compliance with the Loan covenants and the use of the funds. The PIU will be in charge of the Project execution, providing day–to-day Project management and ensuring coordination with PFIs involved in the Project. The CBJ has limited experience with World Bank operations, including the FM and disbursement functions. Therefore, the World Bank will provide training to the designated FM person on World Bank FM and disbursement guidelines and procedures, and will provide FM implementation support during project supervision.

4. **Project FM risk**. The overall FM risk is "Substantial". With mitigation measures in place, the Project will have acceptable project FM arrangements and its FM risk rating will be "Moderate". The FM risk is assessed as "Substantial" mainly due to: (i) the complex operation nature with different stakeholders that raise the issue of coordination limitation that could possibly cause delays in financial reporting and transfer of funds; (ii) first operation with CBJ that has very limited prior experience on the World Bank's FM and disbursement guidelines; (iii) funds are provided to ineligible PFIs, and iv) sub-loans are provided by PFIs to ineligible MSMEs.

5. The following measures are to be taken to mitigate FM-related risks: (i) meticulous eligibility criteria for the PIU with respect to selecting PFIs, documented in the OM; (ii) rigorous eligibility criteria for PFIs and with respect to prudential norms and experience with MSMEs; (iii) no Designated Account (DA) will be opened for this Project and CBJ will be reimbursed against actual funds provided to PFIs; (v) a detailed OM is prepared for the Project; (vi) give a special purpose assignment by CBJ at the PFI level to ensure each year that the sub-loans granted by PFIs to MSMEs meet the eligible criteria; (vii) close support by the World Bank to the PIU during the first phases of implementation; (viii) a qualified Financial Officer is appointed as part of the PIU who will be in close coordination with PFIs and the World Bank; (ix) adequate training will be provided by the World Bank to the PIU and PFIs on World Bank FM and disbursement guidelines and OM; (x) an independent external auditor, acceptable to the World Bank, will be hired to audit the Project's annual financial statements in accordance with terms of reference acceptable to the World Bank no later than six months after effectiveness. The auditor will also assess the effectiveness of internal controls within the Project and a sample of PFIs will be visited as part of the auditor's audit scope.

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 the 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 PIU and it will be updated periodically, and will be used to reflect the variances upon IFRs submission. The CBJ will provide funds to PFIs from its own budget and request later on reimbursement from the World Bank. Therefore, no DA will be opened for this operation. The CBJ will prepare withdrawal applications for reimbursement signed by the designated signatories.

7. *Accounting and reporting*. The CBJ maintains acceptable financial management systems to the World Bank. The CBJ maintains proper accounting books and records in Jordanian Dinar that follow the accrual basis of accounting. The financial statements are prepared in conformity with the International Financial Reporting Standards (IFRS) and related interpretations. The CBJ Law and resolutions of Directors and the Governor are taken as well into consideration when preparing the financial statements. These financial statements with audit reports are published in the Official Gazette and CBJ website. Bookkeeping is automated through Oracle-system which is centralized at the Central Accounting Division. The Project accounting system will be integrated into the CBJ's 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 to reconciliation purposes.

8. PFIs will maintain financial management systems in accordance with accounting and standards acceptable to the CBJ. PFIs will maintain separate accounts for the use of funds under the Project. PFIs will be responsible for the financial management of the funds allocated by the CBJ in the financing agreement, and will account for the Project funds transferred from the CBJ (on behalf of the Borrower) using their own accounting systems. The CBJ routinely ensures that PFIs do maintain adequate accounting standards[11].

[11] ROSC Accounting and Auditing–2004 Report (35087).

9. The Project will produce quarterly consolidated Interim Un-audited Financial Reports (IFRs). The quarterly consolidated IFRs will be submitted by the PIU to the Bank within 45 days after the end of concerned quarter. The PFIs will submit its financial reports to the PIU within 30 days after the end of each calendar semester. The IFRs must include: (i) a statement on sources and uses of funds for the reporting period and cumulative; (ii) a detailed statement of commitments and disbursement by MSME (sub-loans), and (iii) a reconciliation statement of each PFI dedicated account. CBJ will be responsible for preparing consolidated quarterly IFRs, which will be submitted within 45 days after the end of each semester. The consolidated IFRs will be submitted along with IFRs prepared by each PFI. These IFRs will be established in accordance with the Bank's Guidelines. (However, it will not include customer names due to the secrecy law).

10. *Internal controls*. The CBJ organization consists of 13 departments 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 this Project, the CBJ policies and procedures are complemented by the Bank's requirements in the following documented in the OM: (i) financial management guidelines with respect to financial reporting requirements. The Project reports will be complied with through collecting information from PFIs and compiling them by CBJ; (ii) disbursement procedures, all disbursements will be report based reflecting the cash forecasts and projections; and (iii) external auditing, the Project's accounts will be annually audited by qualified acceptable audit firm.

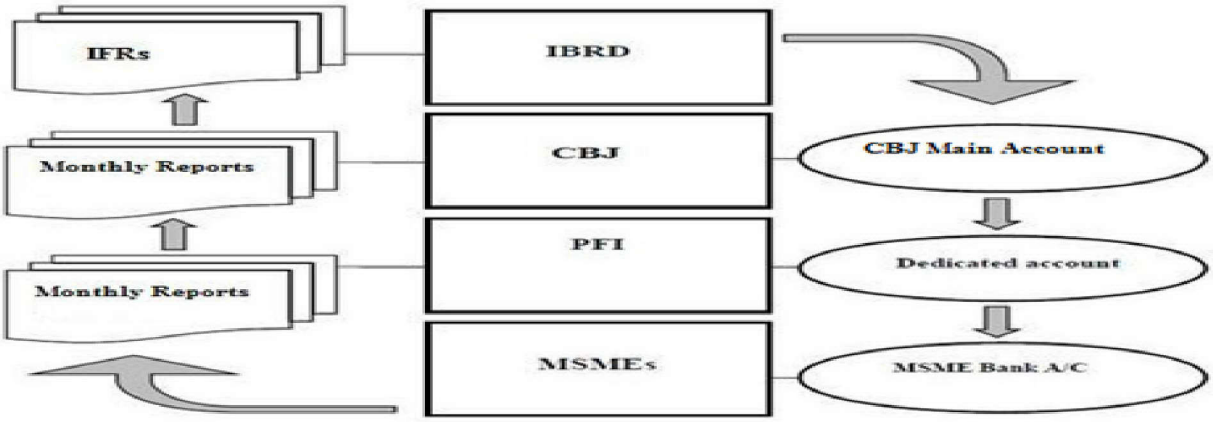
11. *Internal and external auditing*. The CBJ has internal audit function, acceptable to the World Bank, which adopts the risk-based approach according to the International Standards of Internal Auditing issued by the Institute of Internal Auditors. The internal audit department reports directly to the Chairman of the Board of Directors. The Audit Department has in place an audit charter that was prepared in 2010 and updated in 2012, and detailed audit manual that is regularly updated, as needed. The Internal Audit Department is adequately staffed, compromising 28 employees grouped into 7 main groups: (i) foreign investment and operations; (ii) domestic payments; (iii) administrative and finance; (iv) HR; (v) open market operations and supervision; (vi) currency issues and exchange supervision; and (vii) information technology. 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 the 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. However, no material internal control issues that could impact the proposed Project were reported. 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.

12. For the purpose of this operation, an external independent auditor acceptable to the World Bank, financed by the CBJ, will be maintained to audit annually the Project financial statements in accordance with international standards on Auditing (ISA). The external auditor will also conduct quarterly review on the Project IFRs before submission to the Bank. The audit report and management letter will be submitted by the CBJ to the World Bank within six months after the end of the audit period. The CBJ will be responsible for preparing the Terms of Reference (TOR) for the auditor and submitting them to the World Bank for clearance. The annual audit report of the Project accounts shall include a separate opinion as to whether the IFRs submitted

during the fiscal year, together with the procedures of internal controls involved in their preparation, can be relied upon to support related withdrawal applications (WA). A sample of PFIs will be visited as part of the auditor's audit scope. In addition to the audit reports, the auditor will prepare a "management letter" identifying any observations on deficiencies in the system and controls that the auditor consider pertinent and shall provide recommendations for their improvements. According to the World Bank Policy on Access to Information effective July 1, 2010, the audit report with audited financial statements of the Project will be made available to the public. The CBJ is subject to statutory annual audit performed by independent private audit firm; therefore, the CBJ will share its annual audited financial statements with the World Bank.

13. As per the Banking Law No.28, 2000 and its amendments, all PFIs annual financial statements should be audited by external auditors, in a way that is acceptable to the CBJ. The Law requires that bank's financial statements be prepared in accordance with the instructions issued by the CBJ. The instructions of 2007 mandate all banks operating in Jordan to prepare its annual financial statements in accordance with a template that complies with all IFRS through IFRS 7 and was developed in consultation with two of the largest audit firms in Jordan. PFIs will submit their annual audit reports and the management letters on internal control procedures to the "Bank Supervision Department" at CBJ for review and submission to the World Bank within six months from the end of each year. PFIs audited financial statements will include sub-loans financed by the credit line. This requirement will be included in the agreement signed between the PFIs and the CBJ.

Figure A3.1: Flow of Funds



14. *Special purpose review*. As part of the annual review conducted by the CBJ on banks operating in Jordan, the PFIs will be subject of a special purpose review by CBJ Banking Supervision Department" to ensure that disbursements by PFIs are eligible. The special purpose review, using a representative sample of MSMEs, will ensure that the sub-loans granted during this period by PFIs to MSMEs meet the eligibility criteria notified by the CBJ. If the team determines that disbursements are used for ineligible expenditures, the amounts should be refunded to the World Bank.

15. *CBJ disbursements.* CBJ will provide from its own budget, funds to PFIs and later on, based on the actual funds provided to PFIs, the CBJ will submit to the World Bank applications for reimbursement. Therefore, no DA will be opened for this operation. Authorized signatories, names, and corresponding specimens of their signatures will be submitted to the Bank. The Bank will honor the credit line for PFIs by the Project closing date. A four months' grace period will be granted to allow for the reimbursement of any eligible expenditure incurred before the Loan Closing Date.

Category	**Amount of the Loan Allocated (expressed in USD)**	**Percentage of Expenditures to be financed [(inclusive of Taxes])** [12]
(1) PFI Loans	69,825,000	100%
(2) Front-end Fee	175,000	Amount payable pursuant to Section 2.03 of thie Agreement in accordance with Section 2.07 (b) of the General Conditions
TOTAL AMOUNT	70,000,000	100%

16. *PFIs disbursements.* The Bank loan will finance 100 percent of the credit line for PFIs that will in return provide eligible sub-loans to MSMEs. Disbursements from the CBJ to the PFIs will be done on the basis of a disbursement request. In order to facilitate funds management and disbursement of eligible expenditure, each PFI will open a dedicated account for the Project. Supporting documents would be retained by the PFIs and will be available for review when requested by Bank supervision missions and project auditors. Each PFI will submit the withdrawal request for an advance, specifying the amount of funds needed for the first four months, accompanied by a cash-flow forecast based on the budgeted lending. The CBJ will communicate the format of the withdrawal request, cash-flow forecast and formats of all reports to the PFIs. The PFIs have to justify the use of advances transferred by the CBJ on behalf of the Borrower with new disbursement requests. If the PFIs do not apply for a new disbursement request, they must justify the utilization of advances at the end of every semester. In respect of this, subsequent withdrawal requests should be submitted by PFIs quarterly to the CBJ accompanied by financial and activity progress reports plus supportive documentation. Also, the PFIs shall submit quarterly reconciliation of the Project account accompanied by a copy of the bank statement. The CBJ Supervision Department, through its regular on-site visits, will undertake a review of the accounting documentation and records to ensure funds are provided to eligible MSMEs in accordance with the signed financing agreements and eligibility criteria on a sample basis. In case of compliance, failure with CBJ communicated procedures and/or absence of reliable information from the PFIs, disbursements will be suspended until compliance with the requirements is achieved.

17. *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.

[12] The "Percentage of Expenditures to be financed" should represent the percentage of expenditures to be financed by Bank Loan Proceeds under the particular category.

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.

18. *Retroactive financing.* Retroactive financing of up to US$14 million will be allowed for eligible expenditures made during the period of retroactivity, from February 28, 2013 and up to the date of effectiveness. The audit of this retroactive financing will be covered in the audit for the year ending December 31, 2013.

19. *Flow of information.* PFIs will be following their own loan screening procedures in approving the loans to MSMEs, after ensuring that the eligibility criteria specified in OM are met. The procedures for screening by the PFIs of loan applications from MSMEs are determined by PFIs' policies and guidelines and subject to regulation and supervision by the "Banking Supervision Department" of the CBJ. The OM will include among other: eligibility criteria for MSMEs and sub-loans, FM requirements for PFIs and MSMEs, roles and responsibilities, internal controls, ongoing monitoring, risk assessment and management compliance with eligibility criteria for PFIs, disbursement arrangements, reporting and auditing requirements. The detailed flow of information will be further spelled out in the OM.

20. *Grievance mechanism.* A well-designed Grievance Mechanism would provide Bank task teams and clients alike with a variety of benefits such as, and not limited to, improved service delivery and enhanced overall project effectiveness. An effective Grievance Mechanism acts as an early warning mechanism and can help identify problems before they become more serious and/or widespread, and it is expected to promote the transparency and accountability of the Project. The CBJ has in place an existing grievance mechanism executed by a central division (Financial Operations Follow up Division) that is well-publicized through CBJ website. This Division deals with issues, concerns, problems, or claims (perceived or actual) that an individual or community group wants to address and resolve. This Division facilitates the development and implementation of the grievance mechanism, ensures coordination among access points, and makes certain that the system is responsive to the information it manages. The CBJ has an established redress mechanism, so those who feel their grievances have not been adequately addressed, have recourse to an external body for reconsideration of their case.

21. *Training and implementation support.* The World Bank will provide training to PIU staff on World Bank FM and disbursement guidelines and procedures, and will provide FM implementation support during project supervision. Initially, the Bank's Financial Management Specialist will provide close support to the PIU during the first phases of implementation and thereafter will conduct annually two supervision missions for the Project in addition to follow up visits. During the Bank's supervision missions, the Project's financial management and disbursement arrangements (including a review of sample of disbursement) will be reviewed to ensure compliance with the Bank's requirements. In addition, Bank supervision mission will conduct visits to a sample of beneficiary intermediaries.

22. *Procurement.* Commercial practices will be allowed to be followed by the private sector (the ultimate recipients of the sub-loans); however, the OM will describe the basic guiding procurement principles, the established commercial acceptable methods and procedures.

23. No procurement or hiring of staff is envisaged for the PIU under this Project. For a FIL to MSMEs, it is not possible at this stage; to ex-ante identify the final beneficiaries. In addition;

the type of loans cannot be identified at this stage either. Given the nature of the project, a procurement plan will not be needed.

C. Environmental and Social (including safeguards)

24. Aiming at providing information about key environmental and social impacts of the Project, measures to address safeguards issues, and effectiveness of mitigation measures, CBJ will ensure that the key environmental and social impacts are mitigated through a detailed monitoring plan for the phases of proposed projects submitted for funding. Key objectives of the monitoring plan include: (i) enabling the implementing entity and the World Bank to evaluate the success of mitigation as part of project supervision; and (ii) allowing corrective actions to be taken whenever needed.

25. The OM outlines the overall package of environmental monitoring measures that will be implemented in relation to the facility as outlined in detail.

26. The PIU needs to report the implementing entity (CBJ), the progress of implementing mitigation measures within the timeframe and capabilities agreed upon with CBJ. Such monitoring reports should be retained by the lending banks to contain information about: types of activities undertaken, number of site visits conducted, number and types of problems uncovered according to the agreed key performance indicators, and other good practices seen evident in the field. The CBJ should propose a reporting schedule for the lending banks to follow during the Project's life.

27. Due to the very small scale of financing for the sub-projects under this Project (between JD100 and JD25,000), project activities are not expected to result in any potential large scale, significant and/or irreversible impacts. Nonetheless, the sub-projects may result in minor negative environmental and social impacts. Such impacts will be effectively mitigated through the development of an Environmental and Social Impact Assessment (ESIA) and accompanying Environment and Social Management Framework (ESMF), to be written and implemented by CBJ, the proposed implementing agency.

28. The CBJ will need to ensure that the borrowing banks adopt and implement the ESMF (or screening of sub-projects, and that IDA funds will not be used towards the funding of any category A type sub-projects or other projects included in a negative list to be developed.

29. For successful safeguards implementation, the client's social and environmental safeguards capacity needs to be assessed, and arrangements made to ensure that the CBJ will have the necessary capacity for safeguards management and monitoring. The CBJ will be responsible to ensure the necessary compliance of borrowers, banks, financial intermediaries, etc. Consultant(s) with social and environmental safeguards skills will be hired to assist CBJ in assessing the safeguards capacity of the banks and other FI as part of the criteria of selection outlined in the Operations Manual. The CBJ will be responsible for additional training and monitoring of banks and other micro-finance institutions in both social and environmental safeguards issues.

30. In terms of reporting on compliance with the ESIA/ESMF, the CBJ will rely on the environmental and social skills of the Ministry of Environment to undertake an annual social and environmental compliance and performance audit, with approval letters to indicate that the Project has the required environment and social safeguards in place, which the Governor of CBJ will share with the World Bank.

31. The CBJ would ensure that necessary capacity building on safeguards is provided through the banks or other means as needed in the chain of on-lending to micro enterprises and ESIA requirements will be incorporated into Operations Manuals.

D. Implementation Arrangements and Capacity Building Needs

32. The proposed Project will be implemented by the existing PIU at the CBJ. Therefore the CBJ will be responsible for implementation of contracts/works, and the PIU will report to the Bank on implementation (including compliance with ESMF). The CBJ will be accountable for the monitoring and reporting compliance with the ESMF.

33. Lending banks will have the capacity to undertake supervision of works and to ensure compliance with the required environmental measures. The PIU will be responsible to aggregate information on compliance with the ESMP, and include it as a section in the reporting to the World Bank.

ANNEX 4
OPERATIONAL RISK ASSESSMENT FRAMEWORK (ORAF)

HASHEMITE KINGDOM OF JORDAN:
MICRO, SMALL AND MEDIUM EMPRISES DEVELOPMENT FOR INCLUSIVE GROWTH PROJECT

Project Stakeholder Risks	**Rating**	**Moderate**		
Description : *Stakeholder: Financial Institutions*--there is a risk that financial institutions that do not meet the eligibility criteria will lobby against the Project. While the eligibility criteria will be transparent and set in line with good practice, they will by nature exclude some institutions. Smaller financial institutions with a limited outreach to MSMEs in rural areas are less likely to be selected and may be particularly frustrated by this outcome. *Stakeholder: Public at large*—given political instability in the region and the mistrust of international agencies, there could also be a perception that the Bank is over indebting Jordan, and that this loan's primary beneficiaries are banks charging commercial interest rates, not MSMEs. *Stakeholder: 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.	**Risk Management:** *Stakeholder: Financial Institutions:* The eligibility criteria will be communicated in a clear and transparent manner to all financial institutions that are interested in this loan. The criteria will be aligned with and formulated in close cooperation with CBJ.			
	Resp: Bank/CBJ	**Stage: Implementation**	**Due Date : May 1, 2013**	**Status: Not yet due**
	Risk Management: *Public at large.* The loan will focus on priorities of the public – finance to micro and small enterprises, a segment which is currently underserved by financial institutions. Consultations will be conducted with MSME sector. Furthermore, the CBJ can explain to the public that the loan will have a very moderate fiscal impact, and the Government can repay the loan and the loan cost through the on-lending arrangement with participating banks.			
	Resp: Bank/CBJ	**Stage: Both**	**Due Date : December 16, 2012**	**Status: Completed**
	Risk Management : *Donors.* The World Bank will work closely with all stakeholders including the financial intermediaries—banks, NGOs, MFIs, and MSMEs, as well as the Jordanian authorities, CBJ and other donors and development agencies to ensure effective coordination, synergies and a consistent message.			
	Resp: Bank	**Stage: Both**	**Due Date : December 16, 2012**	**Status: Completed**
Implementing Agency Risks (including fiduciary)				
Capacity	**Rating:**	**Moderate**		
Description : *Capacity of CBJ.* Inadequate capacity of CBJ to on-lend the funding as this is not their regular line of business. *Institutional capacity of Banks and MFIs:* There is a risk that banks lack the capacity to serve MSMEs adequately. Some FIs do not have the proper tools and capacity to serve MSMEs in a cost effective and financially sustainable manner.	**Risk Management:** This risk will be mitigated by the Project Implementing Unit (PIU) established at the CBJ whose capacities are being developed in parallel under the MSME TA Facility. There were also be regular monitoring and evaluating by the Bank team and each contract will need the Bank's No Objections before their signing.			
	Resp: Bank/CBJ	**Stage: Both**	**Due Date : May 1, 2013**	**Status: Not yet due**
	Risk Management: The institutional capacity of banks to serve MSMEs or MFIs will be part of their selection criteria, and will be given a high weight. Criteria will include proper institutional structures (e.g. SME lending unit, scoring models, etc.), outreach (branch network, etc.) as well as an existing track record of serving MSMEs. The TA window of the regional MSME Facility will support further improvements in			

	financial institution capacity and products for MSME Finance.			
	Resp: Bank/CBJ	**Stage: Preparation**	**Due Date : December 16, 2012**	**Status: Completed**
Governance	**Rating:**	**Moderate**		
Description : There could be a potential conflict of interest at CBJ.	**Risk Management :** Clear eligibility criteria and governance structures around bank selection would mitigate the risk. The OM sets out clear eligibility criteria that will inform all lending from the CBJ to the banks. Furthermore, no state-owned banks exist in Jordan and as such, the CBJ has neither motivation to prefer nor potential interest in one bank over another. Lastly, CBJ has a long history of capable supervisory abilities and the rules of the supervision function for all banks would remain unchanged.			
	Resp: Bank	**Stage: Preparation**	**Due Date : December 16, 2012**	**Status: Completed**
Project Risks				
Design	**Rating:**	**Moderate**		
Description : The MFIs and banks may not be able to absorb the additional funding from the line of credit.	**Risk Management:** The CBJ will be allowed to reallocate the line of credit for MSME lending to whichever of the two product components that demonstrates the greatest demand for funding and which has the best performance in terms of outreach (volume, geographic coverage, and gender) and repayment.			
	Resp: Bank/CBJ	**Stage: Implementation**	**Due Date : May 1, 2013**	**Status: In progress**
Social & Environmental	**Rating:**	**Low**		
Description : *Negative impacts on environment:* Some projects to be funded under this loan might engage in activities that are harmful to the environment and have negative social safeguard impacts	**Risk Management:** The Environmental and Social Impact Assessment /Environment and Social Management Framework (ESIA/ESMF) will identify, minimize, avoid, screen out, mitigate and monitor potential social and environmental impacts in compliance with World Bank policies and Jordan's applicable laws and regulations. The ESIA/ESMF will be applied by the PFIs in the selection and supervision of MSMEs and sub-projects to be financed. The ESIA/ESMF was disclosed prior to appraisal of the Project, and adopted by the CBJ. The ESIA/ESMF is an integral part of OM. This Project will not involve population relocation, involuntary land acquisition and any negative impacts on livelihoods for financing by banks and micro-finance institutions. In addition, this Project will not include construction resulting in restriction to access of legally designated parks and protected areas.			
	Resp: Bank/CBJ	**Stage: Both**	**Due Date : May 1, 2013**	**Status: Not yet due**
Program & Donor	**Rating:**	**Moderate**		
Description : 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.	**Risk Management:** The World Bank is working closely and liaising with the 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.			
	Resp: Bank	**Stage: Both**	**Due Date : December 16, 2012**	**Status: Completed**

Delivery Monitoring & Sustainability	Rating:	Moderate		
Description: *Sustainability* There is a risk that the credit line will not necessarily sustain improvements in access to finance given lingering deficiencies in credit information and the collateral regime	**Risk Management:** The line of credit will focus on the best performing MFIs and banks as defined by scale, portfolio quality, institutional capacity and a medium- to long-term strategy which includes focusing on micro and SME lending. This approach will promote strong finance providers capable of operating efficiently on a large scale, and widen the range of loan products offered and would also encourage other providers to improve their capacity. The establishment of a credit bureau and developing the law on secured lending is being supported by the MSME TA Facility and will reduce the constraints on bank lending to small enterprises and improve the quality of lending, and increase the sustainability and improvements in access to finance.			
	Resp: Bank/CBJ	**Stage: Both**	**Due Date : May 1, 2013**	**Status: In progress**
Overall Risk				
Implementation Risk Rating: Moderate				
The overall implementation risk has been assessed as Moderate due to the adequate implementation capacity of CBJ and the overall commitment of all stakeholders to the development objective of the operation.				

ANNEX 5

IMPLEMENTATION SUPPORT PLAN

A. Strategy and Approach for Implementation Support

1. The Implementation Support Plan proposed below describes how the World Bank will support the implementation of the Project and provide the technical assistance necessary to facilitate the achievement of the PDO.

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

3. There will be a subsidiary agreement signed between the Borrower and CBJ whereby the Borrower on-lends the proceeds of the loan to CBJ for implementation of the Project in accordance with terms and conditions acceptable to the Bank.

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. The Project team will also be responsible for reviewing all potential contracts with participating banks and providing the Bank's No Objection prior to their signing.

5. The World Bank will work to build the CBJ's capacity on environmental and social risk management and ensure that the Environmental and Social Management Framework abides by World Bank policies and is included in the Operations Manual.

B. Implementation Support Plan

6. The following table provides an overview of the activities and the timeline envisage for the Implementation support plan:

Table A5.1: Overview of the Activities and the Timeline for the Implementation Support Plan

Time	Focus	Skills Needed	Resource Estimate (US$)	Partner Role
First twelve months	Enhancing the PIU's knowledge of Bank Guidelines and Procedures	Finance/Fiduciary	20,000	World Bank FM Team
First 12-48 months	Semi-annual project supervision	Finance/fiduciary/environmental and social risk management	120,000	World Bank Team
First 12 months	Implementation of the ESMF, including the establishment of a dedicated unit for environmental and social risk screening	Environmental and social risk management	20,000	World Bank Team
First 12-32 months	Training of participating banks on environmental and social risks	Environmental and social risk management	10,000	World Bank Team and CBJ

ANNEX 6

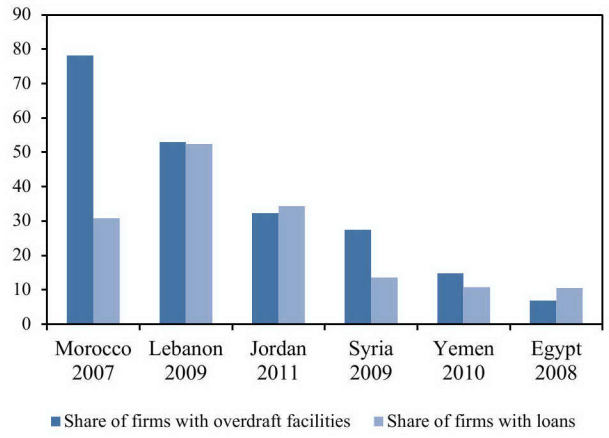
SME ACCESS TO FINANCE IN JORDAN

1. SMEs are major contributors to the Jordanian economy, and to its competitiveness and employment potential. There are around 150,000 registered enterprises in Jordan which employ 32.7 percent of private sector workers. Empirical evidence has shown that smaller firms in Jordan grow at faster rates in comparison with their larger counterparts.[13] To face the ever-growing competition, Jordanian SME's are working rigorously to modernize their technologies and improve their competitiveness. The availability of funds from the Government and other donors has also encouraged SME's to undertake these modernization activities.

2. The Jordanian financial system is relatively large, dominated by the banking sector. There are 22 commercial banks, including four Islamic banks, offering Shari'a compliant products. There is high level of concentration, where the three largest banks account for 47 percent of assets, loans and deposits of the system.[14] The banking sector is less competitive compared to other systems in the MENA region. At the same time, non-bank financial institutions (NBFIs) are underdeveloped and are playing a limited role in financial intermediations.

3. Bank financing is relatively common for SMEs in Jordan, where banks are their principal source of external finance. However, only 11 percent of bank lending goes to SMEs, compared to 25 percent in emerging markets. SMEs are predominantly financed through internal funds. Jordan compares quite favorably among other MENA countries when it comes to having an overdraft facility or a bank loan (Figure A6.1). Banks often offer a narrow range of credit products to SMEs, with many enterprises not seeing banks as relevant to their financing needs beyond overdraft facilities or occasional working capital loans. Due to collateral requirements by banks, SMEs may be denied credit despite having sufficient cash flow or purchase orders, or SMEs may be able to access only short-term credit facilities and not the type of financial products they need. The range of products offered to SMEs is narrow, and equity finance, factoring, and longer-tenure loans are not widely offered. Only 10 percent of their investment expenditures are financed by a bank loan, a share that is higher only than that of Sub-Saharan Africa.

Figure A6.1 Percent of SMEs with Overdraft Facilities and Loans



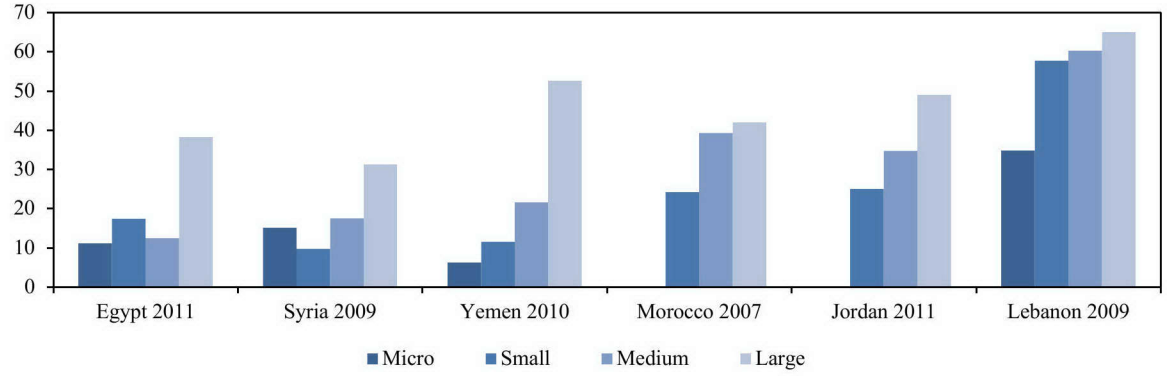
***Source*:** World Bank Enterprise Surveys (2007–2010).

4. Small enterprises have notably lower rates of usage of credit services than medium and large companies. Less than half the proportion of SMEs, as compared to large enterprises use credit from financial institutions in the Arab region (Figure A6.2). By firm size though, only 25 percent of the small firms have a loan versus 35 percent of medium-sized firms, and bank

[13] Enterprises Survey conducted by Hashemite University, Economics Department (2012).
[14] Central Bank of Jordan (2010).

financing is mostly working capital, rather than longer term finance.[15] Many SMEs prefer to finance longer-term, more risky, investments from internal funds, which are the dominant source of financing for MENA SMEs. When credit is available on sufficiently attractive terms and forms, a higher proportion of SMEs do borrow. Therefore, countries with very low percentages for SME borrowing from banks, such as Jordan, have SMEs that are credit constrained, and not only SMEs that choose not to borrow.

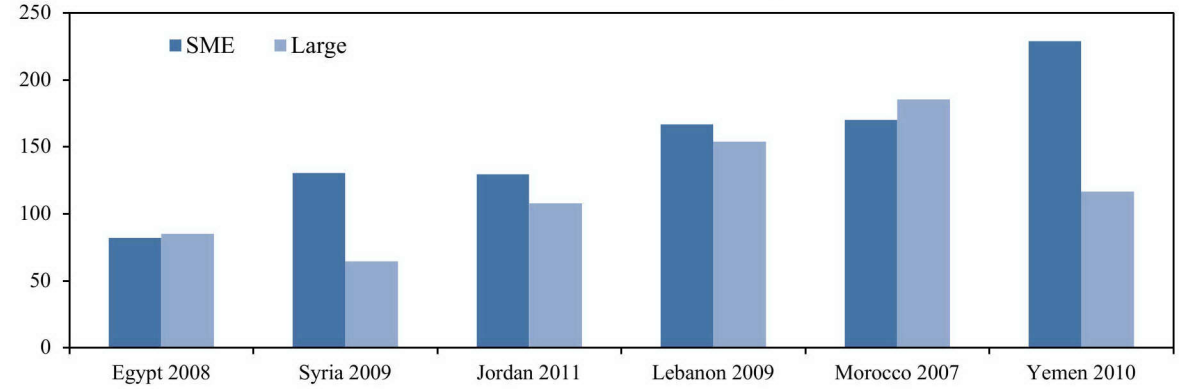
Figure A6.2: Percent of Firms with a Loan, in Selected Countries



Source: World Bank Enterprise Surveys (2007-2010).

5. Most banks in Jordan try to stretch corporate lending techniques to also cover SMEs, to the extent that they can finance them. In many cases banks rely primarily on collateral-based lending. Most loans require collateral equal to about 23 percent more than the loan value. Small firms report having provided higher collateral than do medium-sized firms (Figure A6.3).[16] They will not grant credit without personal guarantees, which in the case of SMEs, are typically their personal residence. The enforcement of basic contractual rights is cumbersome, time consuming and costly, representing a significant disincentive when lending to SMEs. This leads to the credit decisions being made not on the basis of creditworthiness but on the basis of collateral availability. In order for banks to expand access, appropriate and SME-specific techniques and risk management capacities are required

Figure A6.3: Collateral Value as a Proportion of Loan Value by Size of Firm



Source: World Bank Enterprise Surveys (2007-2010).

[15] World Bank, SME survey (2011).
[16] World Bank enterprises survey (2011).

6. Moreover, banking sector competition in Jordan is weak, with lower market contestability. This dilutes the incentives for banks to expand SME finance and develop products and delivery mechanisms for smaller firms and to serve the range of enterprise financial needs. Similar to other Arab countries, in Jordan, the adoption of efficient transaction lending techniques to lower the cost and risk of SME lending has been relatively slow. This is linked to the deficient financial infrastructure, legal frameworks, court systems, and bank reporting systems and skills. This is more evident as firms move out of the main cities, where there is less physical access to financial services. A guarantee or risk-sharing mechanism can help compensate for the financial infrastructure deficiencies in the interim, as Jordan improves its credit information, secures transactions and insolvency.

7. Only very few banks have established dedicated SME departments, and have the capability to lend to SMEs. Most Jordanian banks use internal ratings systems for SME lending, which are based on a financial and qualitative analysis of SMEs, and most of them are not following international best practices for SME banking. Banks often use outdated techniques that do not effectively help in risk management or in lowering cost. Moreover, credit risk is not well managed. Jordan exhibits higher NPLs on SME lending at 20 percent of total loans, compared to 8.5 percent for aggregate loans, and to 12 percent for other MENA countries in 2011. Banks cite SMEs lack of reliable or available information as the primary reason for high loan-to-collateral requirements for SMEs.

8. However, mobile banking penetration in Jordan is among the highest in the region in 2011– Tamweelcom in partnership with Zain (one of the mobile operators in Jordan and owner of 45 percent of the subscribers in early 2011) launched Zain El-mal through which Tamweelcom allows 30,000 borrowers to repay their micro-loans. Zain El-mal is about creating a virtual wallet on subscribers' phones; borrowers have to deposit money in his/her wallet in what is known as Cash-In.

9. On the demand side, the SMEs skills and capacity holds back their access to finance. Enterprises often lack transparency, and do not have audited financial statements. SMEs are perceived as less stable, and lack competent management, and hence considered more risky. These enterprises do not have sufficient collaterals, and when they do, they are not registered, making foreclosure difficult if not impossible. SMEs often refrain from applying for bank loans due to their disbelief in interest-based borrowing. The 2012 World Bank enterprise survey reveals that more than 14 percent of the small enterprises and six percent of the medium enterprises did not apply for a loan for this reason. In general, there has been a growing demand for Islamic Shari'a compliant financial products in Jordan.

Table A6.4: Firms Access to Finance in Jordan (2012)

	Total	Small	Medium
Percent of firms with overdraft facility	**32.3**	**23.2**	**51.3**
Percent of firms with loan	**34.3**	**27.5**	**48.7**
For the most recent loan:			
Percent of firms that require collateral	**92.6**	**98.4**	**84.8**
Average value of collateral required (as a percent of loan value)	**123**	**132.1**	**112.2**
Average interest rate on loan	**8.2**	**8.2**	**8.3**
Average duration of loan (months)	**30.1**	**26.6**	**34.3**

Source: World Bank Enterprise Surveys.

10. At the Governorates level SMEs face bigger challenges. Few banks and Government authorities have branches and offices in the different Governorates, reducing SMEs access to

services. The licensing procedures and requirements by municipalities can be quite burdensome and expensive for SMEs. According to a recent World Bank survey (2011), SMEs identify tax rates and macroeconomic uncertainty as key constraints. Informal sector competition and regulatory policy uncertainty were regarded as the next most important constraints, followed closely by regulatory policy uncertainty, and tax administration. Small firms considered business licensing and regulatory policy uncertainty are factors that are hindering their growth. Municipal inspections are common challenges; however, they have not been associated with informal payments. All this can discourage SMEs from entering the formal sector, which would also prevent them from having access to finance from banks and investment funds. The establishment of regional offices by JEDCO would support these enterprises that were previously marginalized and did not have full access to the services provided by the Government, the different authorities and regulatory bodies.

ANNEX 7

OVERVIEW OF THE JORDANIAN MICROFINANCE SECTOR

1. The Jordanian microfinance industry has a long and well developed history dating back to the first credit programs launched by the Agricultural Credit Corporation in 1959. Jordan has one of the highest microfinance coverage in the MENA region.[17] As of June 2012, the Jordanian microfinance market consisted of 265,997 active borrowers and an outstanding portfolio of over JD150 million, with an average annual growth rate in outreach of 28 percent between 2006 and 2010. Women entrepreneurs account for over 75 percent of all clients.[18]

2. The key microfinance providers in Jordan include credit providers structured as quasi-governmental institutions such as the Development and Employment Fund (DEF), five registered not-for-profit non-governmental institutions or non-profit companies, three registered for-profit companies, one commercial bank, one donor agency and several smaller NGOs that grant micro loans. The largest microfinance providers in Jordan however are registered as non-profit companies. MFIs are organized at the national level in a network association known as Tanmeyah, whose objective is to share experiences and data, advocate for the sector, and collaborate with all stakeholders in order to provide a more conducive environment for the sector as well as provide support to MFIs in the development of new microfinance products.

Table A7.1: Microfinance Market Indicators

Category	Name	Borrowers (Jun 30, 2012)	Outstanding US$ Portfolio (30-Jun-12)
Not-for-Profit Company	Al Watani National Microfinance Bank (NMB)	32,226	19,135,655
	Middle East Microcredit Company (MEMCC)	19,194	25,430,986
	MicroFund for Women (MFW)	71,963	29,456,900
	Tamweelcom	59,563	28,603,946
	Total Not-for-Profit Companies	**182,946**	**102,627,487**
For Profit Company	Al Ahli Microfinance Company (AMC)	17,409	9,121,059
	Al Amin	7,169	4,926,620
	FINCA Jordan	14,834	7,386,444
	Total For Profit Companies	**39,412**	**21,434,123**
Donor Agency	UNWRA	8,488	10,322,394
	Total Donor Agency	**8,488**	**10,322,394**

Source: Jordan National Microfinance Strategy (2011).

3. MFIs operating in the sector follow best international practices and have developed long and healthy relationships with donor agencies. They exhibit strong operational and financial performance, with the majority achieving sustainability and having full time, highly knowledgeable managers. The sector has a strong median ROA (Return on Assets) of 7 percent,

[17] It should be noted that all these countries have significantly larger populations than Jordan. Jordan has at least 250,000 active borrowers and a population of around 6 million; Morocco has about 900,000 active borrowers and a population of around 30 million; and Egypt has about 1.5 million active borrowers and a population of around 85 million.

[18] Ministry of Planning and International Cooperation, Jordan Microfinance Market Study, May 2012.

which is higher than the regional average of 3.4 percent. Jordan also has a solid median profit margin of 25 percent. Due to the very small average loan size, efficiency levels remain low, as evidenced by the high Cost of Borrowers ration which is US41.47 dollars per borrower. The sector's Operating Expense/Loan Portfolios ratio of 20 percent is only slightly below the regional average of 21 percent. Finally, in terms of portfolio quality, the Jordanian market's NPL over 30 days is 1.3 percent which is more favorable than the regional average of 2.8 percent.[19]

4. Jordan was the first Arab country to develop a National Microfinance Strategy in 2005 to guide the development of the sector and to provide access to a wide range of finance services to the majority of the economically active poor households and micro-enterprises in Jordan. In June 2011, the Jordanian National Policy Framework for Microfinance and its accompanying Action Plan for implementation were developed with specific actions identified under the following three pillars: (i) increase access to a range of inclusive financial services to all poor and low income people in Jordan, (ii) support innovation in new product development and alternative service delivery channels; and (iii) ensure the efficient and responsible growth of the industry as part of the formal financial sector.

5. The primary funding sources of microfinance in Jordan have been donors, the Jordanian Government through the DEF–Ryada, commercial banks, and microfinance investment vehicles. Over the past few years, the Jordanian market has become increasingly commercialized with debt financing becoming predominant although larger sized loans from banks are supported with credit enhancements and clear medium-long term loans are not common. The potential borrowers outreach gap as estimated by Sanabel is of 177,592 borrowers.[20]

Table A7.2: Market Coverage (2010)

Borrowers	250,000
Total Population	5,951,000
Nunber of Poor Ages 15-64 Eligible for Micorfiance	1,259,524
Number of Poor Seeking Microfinance	503,809
Number of Poor Ages 15-64 Eligible for Micorfiance	377,857
Penetration Rate (*percent*)	53
Borrowers Outreach Gap	177,592

Source: Sanabel Regional Report (2010).

6. Under Jordanian law, any legal entity may engage in lending without governmental approval. Consequently, a number of regulatory bodies are involved in the sector: the Ministry of Industry and Trade, the Ministry of Planning and International Cooperation, CBJ and, recently, the Ministry of Social Development. In the absence of a microfinance specific legislation, there is no one Government entity with direct responsibility for monitoring micro-lending activities as a sector and as a result, micro-lending services are supervised differently based on the legal formation of the institution providing such services.

7. Although the Jordanian Government had ratified the Credit Information Law in 2003, no licensed credit bureaus have been yet established in Jordan. To this effect, the International Finance Corporation (IFC) has recently signed an agreement with the Jordanian Government for the establishment of a legal framework for credit bureaus that regulates credit information sharing within the country. Meanwhile, Jordanian MFIs, members of the Tanmeyah Network, have been sharing client credit information histories on an informal basis to help prevent over indebtedness and maintain good portfolio quality.

[19] Sanabil Arab Regional Microfinance Report (2009).
[20] The Arab Microfiance Network (2012).

ANNEX 8

MENA REGIONAL MSME TECHNICAL ASSISTANCE (TA) FACILITY ACTIVITIES IN JORDAN

1. The joint World Bank-IFC- MENA Regional MSME TA Facility is a US$30 million regional trust fund to be implemented over a four year time period focusing on three pillars of support to the MSME sector (i) enabling environment for MSMEs; (ii) building the capacity of financial intermediaries; and (iii) training of MSMEs and developing their skills. It is a pool of regional grant funding administered jointly by the World Bank and IFC. to improve the enabling environment for MSME finance, build the capacity of financial institutions for sustainable financing, and support MSME business development services.

2. The World Bank Group is now in the implementation phase, and Jordan will be a priority country out of the five recipient countries, including, Egypt, Tunisia, Morocco, and Lebanon. It was agreed with the Jordanian authorities, mainly the Ministry of Planning and International Cooperation, CBJ, JEDCO (Jordanian Enterprise Development Corporation), and JLGC (Jordanian Loan Guarantee Corporation), on the next steps, regarding implementation of the facility and have identified the following priorities areas, under each of the three pillars of the MENA MSME TA Facility.

3. The Donor community has been very active in supporting Jordan's MSME sector. As described in Annex 12, many development partners have been active in providing support for MSME and for MSME financing in Jordan. At the behest of the Jordanian Government and the donor community, the Bank undertook a study to map the TA activities of the donor community in Jordan, especially given the fast-changing regional context. The stocktaking exercise aimed to identify of MSME financing TA where the development partners are involved, highlight areas of overlap among their activities, identify gaps where TA is not provided, and provide recommendations on future technical assistance and areas of potential for collaboration. These recommendations were packaged in TA Needs Assessment and Plan which provided a prioritized set of activities under each one of the three pillars mentioned above.

4. However, there is room for more efforts to be made to enhance the development of the MSME sector in Jordan. Banks and other financial institutions need to develop a more sophisticated approach to SME financing, with specialization in market segments, and the introduction of products such as factoring, and start-up or risk finance. At the same time, the Government and financial regulators need to support financial institutions in doing so, with effective supervision, adequate legislations, and strong institutions. Regulators are also required to develop a more effective framework for consumer protection as more microenterprises and SMEs make greater use of the new financial services.

A. Objectives of the Proposed TA for MSMEs in Jordan

5. ***The main objective of the facility is to improve the business environment for MSME finance, build the capacity of financial institutions for sustainable financing, and support MSME business development services in Jordan.*** The activities covered by the trust fund are expected to contribute to a sustainable improvement in inclusive MSME development in Jordan through improving the business environment, building the capacity of financial institutions and enhancing the capacity of MSMEs. This will ultimately contribute to job creation and growth.

B. Proposed Priority Areas for Supporting MSMEs in Jordan

6. ***The MSME TA mapping and gap analysis report highlighted the fact that there exists a plethora of activities currently targeting MSME finance in Jordan without adequate coordination; leading to possible duplication of resources, significant overlaps and a lack of appropriate targeting.*** Indeed, a key finding of the gap analysis is that although many of the recommendations of the various studies of MSME financing in Jordan highlighted shortcomings in the legal/regulatory framework, market infrastructure and the lending practices of financial institutions (i.e., Themes 1 and 2), most of the technical assistance provided by donors is focused on Theme 3 (direct support to SMEs, incubation, business development services, etc.).

7. ***The report highlights a number of activities that were found to be important obstacles to MSME financing, but that are not addressed by donors' current and planned interventions in the sector. Of the activities under Theme 1 requiring immediate attention is donor and policy level coordination.*** In order to promote efficient use of funding, it is essential for donors to be aware of the activities of other donors in the field. Also, a high level of collaboration is needed to develop a comprehensive strategy and ensure all stakeholders are consulted in the development of policy and laws directly affecting MSMEs. Other important aspects requiring immediate attention include: developing rating criterion for SMEs, operationalizing the Credit Bureau, setting-up a Secured Transactions Registry, developing receivables financing, reforming insolvency laws, and rationalizing tax treatment of different financial institutions and products.

8. ***Developing an MSME toolkit and MSME lending products to be adopted by banks and financial institutions were important priorities under Theme 2.*** The availability of these products will help harmonize financial institutions' lending activities. Capacity building of financial institutions to set-up MSMEs lending departments is also important. Recommendations under theme 3 are focused on training and capacity building of MSME in strategic planning, operations, financial management, financial planning, and techniques to tap into sources of financing. The recommendations also emphasize the importance of developing alternative source of funding (in addition to bank funding).

9. In addition, during the MSME TA facility identification mission of April 2012, the following potential areas of support which the World Bank Group can provide under the MENA MSME Facility over the coming year were identified:

10. ***On Pillar I that aims at developing the enabling environment for MSMEs through supporting policy, legal and regulatory reforms to facilitate their access to finance, the following activities for World Bank Group support were identified:*** (i) the operationalization of the newly established private credit bureau; (ii) provide technical assistance and advisory service to the Secured Transaction Program through supporting the drafting of a new Secured Transactions Law, and assisting in the establishment of a collateral registry; (iii) review and provide feedback on the SME Development Strategy and the SME Law; (iv) setting the Islamic finance legal and regulatory framework; and (v) building the capacity of the existing Consumer Complaints Division, as well as to establish a Financial Ombudsmen Service Unit to respond to MSMEs customers' issues of concerns.

11. ***On Pillar II that focuses on providing advisory services to financial institutions that serve MSMEs to attain a more inclusive system, focusing on youth, women and regional disparities, the following activities were identified:*** (i) modernizing JLGC, and designing efficient risk-sharing products that could provide reassurance to banks in expanding SME finance on a prudent basis; (ii) provide training and advisory services to banks on SME lending, including

training and knowledge sharing, through a series of workshops and training courses on best practices in SME lending, as well as in-depth advisory services for SME banking; (iii) provide training and knowledge-sharing on Islamic SME lending including training and workshops by experts and practitioners on SME Islamic lending, as well as South-South knowledge sharing from countries such as Malaysia, and (iv) provide training and in depth advisory services to banks to develop a value proposition targeting women entrepreneurs.

12. ***On Pillar IIII that aims at training and building the capacity of the enterprises, through entrepreneur networks, mentoring, and business incubator-type services, the following activities were identified:*** (i) provide capacity building and training to the BDUs that JEDCO will establish in the different Governorates; (ii) capacity building of SMEs will be carried out for developing their business management skills so as to enable them to run their businesses in a better manner, the training programs in this regard will be carried out under the umbrella of 'Business Edge'; which is an internationally recognized program of IFC, designed specifically for SMEs; (iii) providing training and awareness programs for women entrepreneurs in order to improve their access to finance; and (iv) broadening the range of business development services to facilitate linkages with investors, new markets and technologies; as well as linking high potential entrepreneurs to mentoring, networks, innovative approaches of doing business, and risk capital.

C. Proposed Activities under the Jordan MENA MSME TA Facility

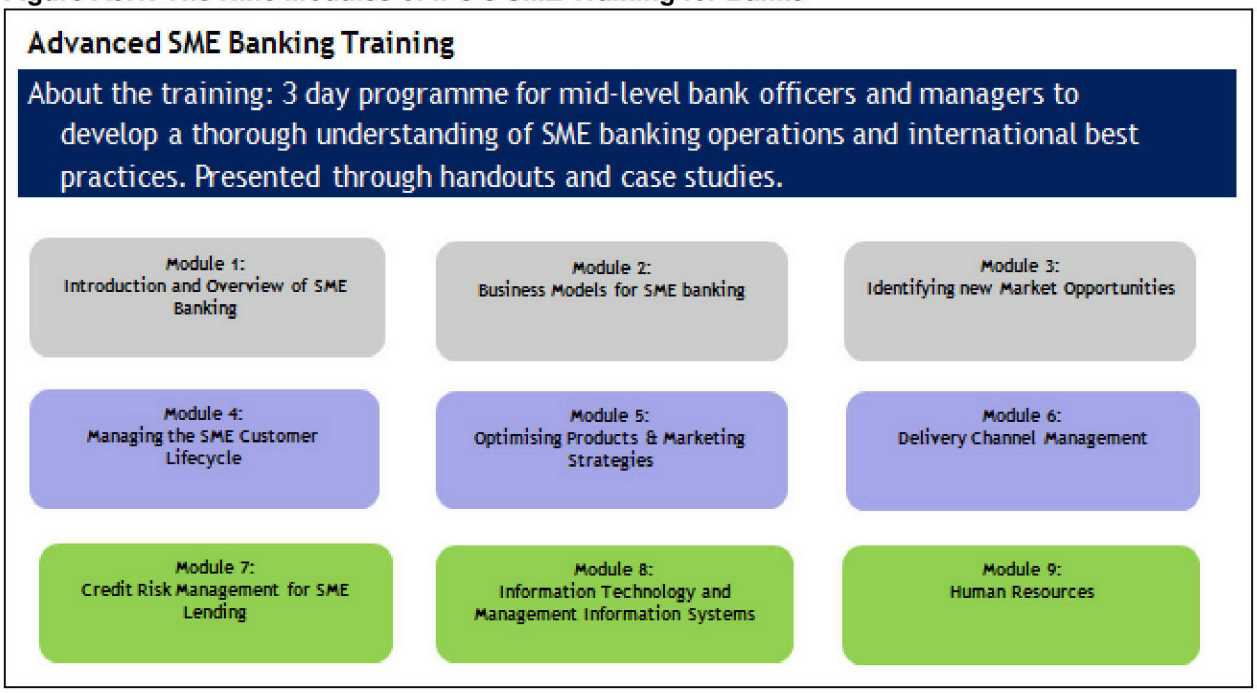
13. Under this package, the Bank and IFC will provide TA that is directly linked to enhancing the outcome and impact of the line of credit in the following ways:

14. ***Guarantee products***. At the request of JLGC, the World Bank and IFC will provide technical assistance to refine their existing SME loan guarantee products and develop new products that are tailored to SMEs and are based on adequate risk analysis, that address the issues of moral hazard and adverse selection. Under a new revitalized management, JLGC has refocused its attention on SME lending, developed a new Islamic product, and signed new agreement with three banks to extend guarantees to their SME lending. The World Bank Group support will include cross-regional support and knowledge-sharing from successful international loan-guarantee schemes. This will assist JLGC in expanding its outreach and increase the impact of its products, especially those targeting SMEs. It will also support JLGC in designing a guarantee product for micro-lending, the funding for which (JD1 million) is coming from the Government of Jordan. The IFC held a scoping mission in July to conduct a Needs Assessment, followed by a Diagnostic Assessment mission in September 2012, the formal report of which would be submitted in October 2012. The key findings of the assessment mission were:

- ***Positive directional alignment:*** JLGC has already made progress with making desired management changes; with strong new management (mainly Director General) and enhanced credibility with banks; JLGC has completed a 5 year strategy formulation exercise; strengthened the SME-centered activities; new investment policy was developed and adopted.

- ***Competencies enhancement:*** JLGC needs support in 6 core competencies to achieve scale, sustainability and efficiency mainly in the areas of: Segmentation, Risk Management, Delivery Model, Payment Rules, Analytics and Systems, Organization/human resources. The Bank and the IFC can provide required technical assistance.

Figure A8.1: The Nine Modules of IFC's SME Training for Banks



15. ***Business Development Units (BDUs) in the Governorates.*** As per the request of the Ministry of Planning and International Cooperation, and JEDCO, the Bank is providing capacity building and training to the BDUs that JEDCO will establish in the different Governorates. These BDUs will aim to enhance the business environment through providing advisory services to SMEs in order to improve their ability to start business, register, access finance, prepare financial statements, and business plans. The BDUs will also offer SMEs, capacity building, skills training, work-ethics development, and business development services to grass-roots and marginalized entrepreneurs and linking them to sources of funding. The Bank will provide technical assistance, and training to both the BDUs as well as the entrepreneurs, with a focus on small and micro enterprises that are dominant in these areas. Priority Governorates in the first two years are: Maan and Taflieh in the South, Mafraq in the East, and Jerash and Ajloun in the North.[21] The Bank has already started working with JEDCO on developing a plan to map-out the services of these proposed DBUs and to design their product and service offerings.

16. ***Capacity Building for the PIU at CBJ***. The CBJ will benefit from technical assistance in implementing the line of credit and in adhering to the Bank's requirements on fiduciary and safeguards issues.

17. ***SME Banking Training***. Although several banks have established independent SME units, the level of specialization and skills vary significantly from one bank to the other. Banks can benefit from developing their credit appraisal methods, risk monitoring tools, client relationship management, and collection skills. Based on the survey conducted recently by CBJ, numerous banks have requested technical assistance advisory services and capacity building in order to help them provide better services to the MSME sector. This includes training and knowledge sharing, through a series of workshops and training courses on best practices in SME lending, as well as in-depth advisory services for SME banking with emphasis on strengthening risk management and

[21] Funding for the entrepreneurs that avail from the BDU's training will be provided through the newly established Equity Investment Fund (EIF) of the Governorate Development Fund.

corporate governance practices. IFC is in discussion with various financial institutions/intermediaries in Jordan to help provide advisory services and technical assistance. In this respect discussions were held with Jordan Ahli Bank, Cairo Amman Bank, and Arab Bank. Moreover presentations were made to Jordan Ahli Bank and Cairo Amman Bank in July 2012 with subsequent proposals submitted for conducting diagnostics visit. As part of the WB/IFC Mission in October 2012, follow-up meetings have been held with these banks. In addition, the Arab Bank has expressed interest in finding more details with an interest in availing SME Banking Advisory services from IFC. A follow-up meeting is being arranged in this respect. IFC has also been in discussion with Association of Banks in Jordan and various options were discussed to provide training to Banks in Jordan. IFC has agreed with Jordan Ahli Bank to conduct its "Advanced SME Banking" training in the second week of December where the target audience would be senior management of banks.

ANNEX 9

ELIGIBILITY OF BANKS AND TERMS AND CONDITIONS OF PARTICIPATION AGREEMENTS

1. In order for a bank to qualify to access funds for the Project, it must meet the eligibility criteria outlined below and detailed in the Operational Manual: [22]

- **Past experience:** a demonstrated track record of running an MSME lending portfolio for at least three years or, in case of PFIs new to this business, presence of a head of MSME operations with at least three years of relevant experience;
- **Overall banking performance:** the PFI needs to have an acceptable rating on the CAMEL/ROCA based assessment undertaken by the CBJ. It is proposed that a minimum score of three is necessary.
- **Loan collections quality:** an acceptable level of net non-performing loans (90 days) of no more than 8 percent or else has a clear action plan to improve collections;
- **Capital adequacy:** an acceptable level of capital adequacy (minimum 12 percent);
- **Earnings:** an acceptable level of earnings quality in the last financial year (minimum return on assets of 0.3 percent)
- **MSME strategic focus:** a business plan for the PFIs MSME operations for growth;
- **Accounting:** availability of audited accounts with no significant unresolved observations from audit reports.

2. Once deemed eligible, banks will be selected for lending under the Project based on an appraisal of their proposals submitted to CBJ. As a central bank, CBJ undertakes detailed on-site and off-site appraisals of commercial banks under its supervision, with the frequency being determined based on the risk profile of the bank. The method used is a CAMEL/ROCA based approach and this will be drawn upon in making an assessment of banks' proposals under this Project.

Table A9.1: Framework for Proposal Assesment

	Parameters		Score range (1 best, 5 lowest)	Weight	
	CAMEL	**ROCA**		**CAMEL**	**ROCA**
Overall Institutional Performance	Strength of capital	Risk management	1-5	15	18.75
	Asset quality	Operational controls	1-5	15	18.75
	Earnings quality	Compliance	1-5	15	18.75
	Management quality	Asset quality	1-5	15	18.75
	Liquidity	-	1-5	15	-
MSME capacity and proposal	Value addition of the proposal (product innovation, under-served areas, women, youth focused, etc.)		1-5	10	
	Management capacity for MSME operations (staff quality, MSME department, performance of SME portfolio, business plan)		1-5	10	
	Efficiency in lending (pricing, cost efficiency)		1-5	5	
Overall				**100**	

[22] The levels indicated here could be fine tuned over time in which case they would be discussed and agreed with the Bank team and the changes then updated in the Operations Manual.

3. Proposals will be assessed by the PIU in CBJ based on an assessment of: (i) the quality of financial performance and (ii) management strength of the bank, (iii) the banks' strategy and plans for MSME portfolio growth, and (iv) quality of proposal, including in terms of the 'additionality' they entail in financing MSMEs–for example in introducing new products, reaching particularly underserved regions or new MSMEs, innovative use of delivery channels including MFIs, etc. The following broad framework is proposed in Table A9.1.

4. It is proposed that proposals that score 3.5 and under will be considered for funding under the Project. Through such use of defining access to funds based on performance and proposal technical content and management capacity for implementation, the Project will have a strong signaling effect. Adherence to these criteria will be ascertained by CBJ's PIU as part of the PFI funding appraisal process.

5. The following terms and conditions will be reflected in the on-lending financial agreements to be entered into between CBJ and the banks:

- All on-lending financial agreements will be subject to prior review by the World Bank.
- The partner bank will enter into a lending agreement with CBJ.
- Sub- loan will be denominated in JD, except under circumstances where foreign currency loans are demanded by MSMEs for exporting or re-exporting in accordance with CBJ regulations on foreign currency loans
- Interest rates from CBJ to partner banks will be set in accordance with market principles.
- Maturity of sub-loan of up to 15 years, inclusive of a grace period of up to 5 years
- The partner bank will keep MSME sub-loans funded under the credit line separate and distinct from the rest of their loan portfolios.
- The partner bank will seek to ensure that net non-performing sub-loans (NPLs) under the line of credit do not exceed 4 percent.
- Sub-loans to MSMEs will be made in JD, except in circumstances where foreign currency loans are demanded and made in accordance with CBJ regulations on foreign currency lending.
- Sub-loans to MSMEs will be evaluated using a credit appraisal methodology acceptable to CBJ.
- Sub-loans to MSMEs will ensure acceptable procurement practices in case sub-loans were used for any procurement activities.
- The partner bank will charge interest rates adequate to cover its cost of borrowing from CBJ plus a reasonable risk-adjusted spread and profit margin. The interest rate will be positive in real terms.
- The Project will not provide financing to banks or SMEs who trigger World Bank Operation Policy (OP) 4.12. More precisely, financing will not be provided to banks or SMES for sub-projects that result in direct economic and social impacts through the: (a) involuntary taking of land resulting in: (i) relocation or loss of shelter, (ii) loss

of assets or access to assets, or (iii) loss of income sources or means of livelihood, whether or not the affected persons must move to another location; or (b) involuntary restriction of access to legally designated parks and protected areas resulting in adverse impacts on the livelihoods of the displaced persons.

- The partner bank will be responsible for ensuring that MSME sub-borrowers comply with applicable World Bank procurement rules; applicable Jordanian environmental legislation/regulations, as well as the Bank policy on environmental assessment.
- The partner bank will be responsible for environmental due diligence to mitigate negative environmental impacts if any are present.
- Remedies and penalties might be applied by CBJ in the event that a partner bank fails to comply with requirements.
- The partner bank will retain all documentation relating to sub-loans, provide regular reports to CBJ in agreed formats.

ANNEX 10

WOMEN'S ACCESS TO FINANCE IN JORDAN—GENDER MAINSTREAMING OF PROJECT

1. The female labor force participation rate in Jordan is among the lowest in the region and in the world, at around 15 percent. The situation is worse and is particularly difficult for young women, whose unemployment rate is 36 percent compared to 19 percent among young men. Young women account for only nine percent of the economically active population. The structure of the economy offers few opportunities for unskilled and semi-skilled women (who make up most of the economically inactive population). Moreover, regional disparities persist, as Jordan lags behind in female representation in employment in nonagricultural sectors.

2. The Government of Jordan, in response to these challenges, has begun implementing a National Employment Strategy focused on addressing gender disparities, and on increasing female participation, through targeting several of its vocational and micro-finance programs toward unskilled and semi-skilled females as well as mainstreaming gender in SMEs development. Mainstreaming access to finance to women is a core element of the Government's strategy. In addition to supporting lending for female entrepreneurs, the Jordanian authorities recognizes the need to provide complementary non-financial services like training, business support, identifying market sectors which meet the household and mobility constraints on women, and other related services.

3. Providing equal oportunities, and ensuring that investors—both men and women, have equal access to the financial market is essential for sustainable and inlcusive growth. Funds should be allocated to the most productive uses with no discrimination by gender. 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. This is especially important in the microfinace sector, as women entrepreneurs account for 71 percent of all microfinance clients.[23] Empirical evidence has shown that economic empowernment of women would generate benefits to the whole family, and improve the standard of living of the childern. Enhancing women's entreupreunership opportunities, and giving them equal access to finance, will ultimately result in long-run economic prosperity.

Figure A10.1: Access to Finance as a Constraint by Gender of Principal Owner in Jordan

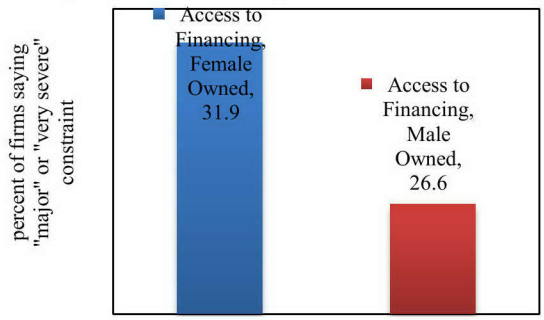
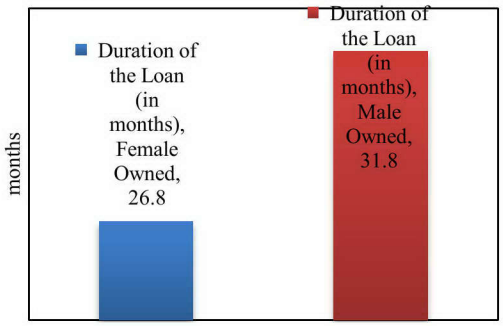


Figure A10.2: Average Duration of Loans in Jordan by Gender of Principal Owner



Source: ICA (2012).

[23] Ministry of Planning and International Cooperation's Jordan Microfinance Market Survey (May 2012).

4. While access to finance remains a business constraint for both men and women, evidence seems to suggest that women face higher hurdles, particularly for those who own micro and small enterprises. The Jordan ICA shows that women suffer more from constrained access to finance compared to men, and are more likely than men to site it as "major" or "very severe" (Figure A10.1). In addition, the average duration of loans made to female-owned enterprises is five months less than their male-owned counterparts (Figure A10.2).

5. Women suffer more from constrained access to finance compared to men, whether in terms of the cost of finance, ability to gain approval for financing, or legal disputes and conflict resolution in case of bankruptcy. In addition, banks request more strict collateral requirements when dealing with women investors as they are perceived as higher risk. Women often have difficulty in providing collateral because, although the law gives women ownership rights of property, they often lack independence in managing these assets (being under the guardianship of their brother, husband, or even son). In many cases they are prevented from using their property as collateral for loans, limiting their ability to participate as independent agents in private-sector activity. The allocation of resources within the family is greatly influenced by the perception of roles, where the men are seen as the main, if not the sole, bread-earners (even in the cases when they are not).

6. In the credit market, limited access of women precludes learning about their potential performance as borrowers, including their ability to repay. Perceived cost or other differences between men and women and reinforcing social norms exacerbate this problem. For example, a preference for well tried-and-tested borrowers among commercial banks could reduce the credit to women.

7. In light of the various challenges facing women enterprises, the proposed Project both mainstreams gender through the main components, as well as directly targets women through some innovative subcomponents. The innovative components of this Project that directly affect women, include designing new products that target women, and to encourage banks to have special windows for women, especially in the marginalized governorates where there are more social barriers. Other new products such as Islamic financing will also significantly benefit women. Moreover, incentives could be considered, but if introduced would be subject to commercial principles and be back ended, following satisfactory debt servicing. In addition to the collateral barriers that affect women's access to finance, there is also the issue of low financial and business management skills that limits their capacity to effectively present their financing needs to the banks. Banks also do not see women entreprenurs as business clients and do not know how to target this segment of the MSME sector.

8. Given the very low labor force participation rates of females in Jordan, a direct consequence of increasing female entrepreneurship is that it could result in an increase in female employment. This will occur directly through female business owners, but there is also the expectation that female business owners will employ female employees. The firms' surveys and the workers module, conducted by the World Bank in several countries, show that increasing the number of woman entrepreneurs could lead to a rise in the percentage of women in the workforce. This is mainly due to women-owned firms hiring more women as opposed to male-owned firms because of various factors including cultural traditions and work environment. Women workers report that there is less potential for harassment in enterprises that are women-owned, as well as in large firms irrespective of the gender of ownership, as in the latter there are in general clear institutional set ups, transparent HR rules, labor protection and human rights

policies. Female entrepreneurship in Jordan is challenged by a lack of access to capital, inadequate technical capacity and networking skills, the absence of role models, travel restrictions, and cultural/societal demands (such as the need to be the primary care provider for children and the home). Inheritance laws and traditions that give property and other potential collateral to male family members make it difficult for women to access capital finances through loans. Even small microfinance loans typically require a male guarantor (such as a brother or husband) and are usually used to assist the family and not to start a business (loans up to US$2,000 that are repaid are not reviewed for whether entrepreneurship activity was involved). Women-owned, home-based businesses face particular challenges due to licensing requirements for certain types of businesses – e.g., for food preparation) and the cultural problem of women dealing with male inspectors.

9. Jobs growth analysis is not well documented to determine if home-based employment (i.e., working remotely or starting a business) would provide greater opportunities for women to be economically active, especially in conservative communities where female mobility is restricted. Legal constraints on home-based businesses (e.g., licensing and inspections) and possible incentives for women should be explored. Employer concerns about the abuse of privileges by those working remotely (and not being monitored) should also be investigated. As with any entrepreneurial activity, prior to starting the business, research needs to be done to determine whether a market exists for the products or services that are going to be offered, and whether the entrepreneur to be can produce at a price that will be competitive. It is not clear how important other potential legal barriers are to female participation in the workforce. Restrictions on working at night and in certain fields (e.g., mining) exist for females, while family and social constraints still remain

10. Hence, MSMEs are not only major contributor to employment but they also help in achieving inclusive growth through addressing gender disparities. 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 ultimately resulting in long-run economic prosperity. It is critical that the Government, in partnership with the various stakeholders, mainstream gender, and enhance women's economic empowernment in Jordan.

ANNEX 11

LESSONS LEARNED AND REFLECTED IN PROJECT DESIGN

1. The Project design fully reflects lessons learnt from recent, ongoing, and completed World Bank Group activities and donor projects, international best practice in the MSME finance area, and also OP 8.30 guidelines. This includes lessons learnt from similar operations in Egypt, Tunisia, Morocco, India, and other countries, as well as the IEG's assessment of World Bank Lending for Lines of Credit Report[24]. These lessons include:

2. ***Implementing entity's capacity, accountability and strong management is essential for successful project execution***. In lines of credit in developing countries, intermediation through Government agencies has often not been very successful in part because these entities lack the appropriate institutional and operational capacity. The CBJ is a sound regulator and supervisor with a competent Board, strong management capacity, market knowledge and a good governance structure and as such, has been assigned clear responsibility and full accountability for project implementation. While there is a potential conflict of interest in its role as a lender and as a supervisor, the CBJ has institutionalized mechanisms to mitigate the potential conflict of interest situation (discussed further below). Moreover, capacity building activities will be provided in parallel under the MENA TA Facility to enhance its efficiency and skills to execute the Project.

3. ***Use of sound eligibility criteria that meet Bank guidelines in selecting and monitoring banks to ensure their financial and operational quality***. The proposed project will entail the CBJ allocating its loans based on transparent eligibility criteria, as previously discussed, taking stock of the recommendations put forwards by the 2006 IEG Evaluation. Banks will have incentives to strengthen their performance in order to be eligible to larger loans from the CBJ. Drawing on lessons learned from similar projects, the selection of banks will receive increased attention, because choosing the right intermediary is critical for the success of the project.

4. ***Adequate supervision of the line of credit should include clearly defined and transparent indicators for monitoring implementation progress and measuring overall impact***. Clear project indicators have been defined for the Project. Monitoring will be an important aspect of the Project and will reinforce participating banks' performance monitoring by the CBJ. Periodic visits to banks as well as to final beneficiaries will take place to ensure that the main project objectives are achieved as set in the results framework.

5. ***Suitable products and delivery mechanisms are crucial for increasing access to finance for MSMEs***. The Project will not just expand credit through existing lending products, but innovate through incentivizing the promotion of new products such as Islamic finance product and windows for women. Such innovative and diversified products lead to better financial inclusion and better reaching out to all segments of society, addressing specific needs.

6. ***Specific allocation of funding for SME versus microfinance is not advisable***. From previous experience, projecting the allocation of specific amounts to SMEs versus micro is not consistent with market needs, especially in a changing environment. For example, in the case of Egypt there was higher demand for SME funds. Hence, instead of allocating specific amount, it is more advisable to set targets in terms of outreach, as many microfinance clients can be served

[24] World Bank Lending for Lines of Credit Report (73946).

with relatively limited amounts. This is even more critical in Jordan where MFIs already have access to loans from local commercial banks. The Project will thus channel the funds to MFIs through local commercial banks. There is nevertheless a possibility that, as a result of not allocating a specific envelope for microfinance, no funding would reach MFIs.

7. ***Procurement in loans to financial intermediary institutions***. Taking a stock of lessons learnt on project design for actual implementation of the three line of credit operations (Egypt, Tunisia and India). Procurement arrangements need to follow market practices of MSMEs, which were adapted to the realities of how enterprises operate; for example, MSMEs typically buy equipment from manufacturers where they have a long standing relationship: so factors of prior experience and of good quality dominate their decisions. This is a repeat purchase situation through sole source, commonly used by private sector. In addition, procurement by the MSMEs (relative to public sector, government or large firms) is inherently maximized for the most efficient procurement. Being small, owner, manager, procurers, such distinctions are blurred at the MSME level and hence scope for manipulation between these roles mitigated. Considering all this, a market adjusted approach was appropriate, allowing commercial practices to be followed by the ultimate recipients of the sub-loans.

8. ***Effective donor coordination is essential to ensure synergies in approach and guidelines for lines of credit***. Establishing a system for aid coordination is a key requirement for the success of project implementation. The IEG Evaluation of World Bank Lending for Lines of Credit showed that the Bank should engage with other major multilateral donors to assess the extent to which there are differences in guidelines governing lines of credit and to achieve the best possible coordination and synergy. Donors are proving ample support to the MSME sector in Jordan. The recent MSME activities mapping and gap analysis report conducted by the Bank, highlights the fact that there exists a plethora of activities currently targeting MSME in Jordan without adequate coordination; leading to possible duplication of resources, significant overlaps and a lack of appropriate targeting. Hence, it is also critical to avoid duplication of efforts, and best use of resources (see Annex 12 for more details on development partners coordination).

ANNEX 12

DONOR COORDINATION AND ONGOING AND PLANNED DONORS ACTIVITIES TO SUPPORT MSME FINANCING

1. The World Bank has worked closely with development partners that are active in the MSME sector in Jordan. At the request of the Government, the Bank conducted a stocktaking exercise aiming at identifying the areas of MSME where the development partners are involved, highlighting areas of overlap among their activities, identifying gaps where TA is not provided, and provide recommendations on future technical assistance and areas of potential for collaboration. The MSME TA mapping and gap analysis report highlighted the fact that there exists a plethora of activities currently targeting MSME finance in Jordan without adequate coordination; leading to possible duplication of resources, significant overlaps and a lack of appropriate targeting. Indeed, a key finding of the gap analysis is that although many of the recommendations of the various studies of MSME financing in Jordan highlighted shortcomings in the legal/regulatory framework, market infrastructure and the lending practices of financial institutions (Pillar I and II of the TA Facility), most of the technical assistance provided by donors is focused on Pillar III (direct support to SMEs, incubation, business development services, etc.), without addressing the liquidity constraint.

2. The Donor community has been very active in supporting Jordan's MSME sector. The stocktaking exercise aimed at identifying the areas of MSME financing TA where the development partners are involved, highlight areas of overlap among their activities, identify gaps where TA is not provided, and provide recommendations on future technical assistance and areas of potential for collaboration. The universe of donors that are already engaged in the MSME access to finance space in Jordan encompasses: three multilateral development financing agencies (World Bank/InfoDev, European Union and Islamic Development Bank); two multilateral private sector financiers (IFC and EIB); and three bilateral development agencies (USAID, GIZ and Agence Française de Development). In addition, the European Bank for Reconstruction and Development has recently entered the Jordanian market and started providing assistance to this sector.

3. In consultation with the Jordanian authorities, and development partners, the Bank identified a number of activities that were found to be important obstacles to MSME financing, but that are not addressed by donors' current and planned interventions in the sector. Foremost among those is the emerging liquidity situation. In addition, banks and other financial institutions need to develop a more sophisticated approach to SME financing, with specialization in market segments, and the introduction of products such as factoring, and start-up or risk finance. At the same time, the Government and financial regulators need to support financial institutions in doing so, with effective supervision, adequate legislations, and strong institutions. Regulators are also required to develop a more effective framework for consumer protection as more microenterprises and SMEs make greater use of the new financial services.

A. USAID-Supported Activities

4. ***US Overseas Private Investment Corporation (OPIC) Guarantee.*** The Government of Jordan reached an agreement with the OPIC for setting up a US$250 million partial credit guarantee fund; which was signed in October 2011. The fund would provide 60 percent (in

Amman), 75 percent (outside Amman) credit guarantee coverage to new MSME 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 CHF under the name of the Jordan Loan Guarantee Facility (JLGF).

5. ***MSME Grant.*** In order to further lower the cost of funding to MSMEs outside Amman, the Ministry of Planning and International Cooperation negotiated with USAID a grant funding of US$50 million to provide grants to MSMEs in tandem with the guarantee facility. This grant will be allocated as follows: (i) CHF: around US$10 million grant will be allocated to CHF for managing the facility and providing training to banks on the access and use of the facility. This TA basically focuses on facilitating the OPIC guarantee. This activity has already started; (ii) JEDCO: around US$30 million will be provided to JEDCO and split roughly into US$20 million as grants for SMEs to invest in energy efficiency and design work, as well as other innovative activities. The rest, around US$10 million, will be in technical assistance for SMEs to become more credit worthy (helping them develop financial statements, business plans and loan proposals). Part of this latter pot will also be technical assistance to JEDCO; and (iii) Microfinance: around US$10 million will be allocated for the lower end of the market (micro-enterprises). However, the mechanism and timing for this support has not yet been determined.

6. ***Competitiveness Grant.*** A grant of US$50 million is allocated for a forthcoming Competitiveness Program that will focus on cluster and value-chains development in three main clusters (ICT, medical services and clean technology). The program has four components: (i) cluster development through business development services; (ii) business enabling environment; (iii) access to finance and (iv) workforce development. Part of the support in the selected clusters will be for SMEs active in those clusters.

B. Arab Social and Economic Fund (ASEF)

7. Under the Arab World MSME Facility, US$30 million were allocated to Jordan for microfinance to be on-lent through the DEF over a three-year period in equal annual tranches of US$10 million, starting in the second half of 2012. Half of the fund will be lent directly through DEF to micro-enterprises, while the other half will be on-lent to other partner MFIs. DEF provides lower-interest lending solely catering to micro-enterprises. It is worth noting that the bulk of the US$10 million grant from the Islamic Development Bank (IsDB) to DEF for Islamic micro-lending has already been utilized.

C. Gesellschaft für Internationale Zusammenarbeit (GIZ)

8. GIZ is working closely with the Ministry of Planning and International Cooperation on the following strategic priorities: (i) developing a unified regulatory framework through drafting specific Microfinance legislation, and developing a self-regulatory regime; (ii) promoting supportive industry infrastructure; (iii) spurring market expansion and innovation; and (iv) ensuring sustainable funding for the Microfinance sector.

Table A12.1: Mapping of Recently Closed, Ongoing and Planned donors Activities to Support MSME Financing

CLOSED/ONGOING/ PLANNED ACTIVITIES	DONORS									COMMENTS
	DFID	EIB	EU	IFC	Info Dev	GIZ	ISDB	USAID	AFD	
Theme 1: Policy Development, Regulatory Reforms, & Financial Infrastructure										
Credit Bureau Project -Credit Registry Program. (Phase I closed & Phase II proposed)				✓						The first phase has closed and phase II of the credit bureau project (planned) is designed to Operationalize the credit bureau.
IFC Secured Transaction Program (Active)				✓						Designed to support drafting a stand-alone Secured Transactions Law. The legislation is comprehensive and complex. To establish the registry, software and equipment are needed.
Leasing Project (Closed)				✓						Included assistance in drafting Leasing Law and capacity building and awareness training.
Support to Local Economic Development (euro 4 to 8 million, planned 2013)			✓							TA for policy support and regulatory review
Investment Framework and New Investment Law TA program (euro 20 million, planned 2013)			✓							
Promotion of Microfinance in the MENA Region – Program: strengthening the legal framework for microfinance in Jordan (on-going)						✓				
Capacity building of CBJ to regulate microfinance institutions and Strengthening MFI Credit Information Sharing (planned)						✓				
Theme 2: Strategy Development, Training, & Capacity Building for FI										
Trade finance TA Project (closed)				✓						SME lending diagnosis for a few banks was conducted as part of the Trade Finance project
SABEQ: supporting credit scoring system for SME's (closed)								✓		
Grant to CHF including TA to 5 to 7 banks participating in the OPIC credit guarantee fund (on MSME lending) and TA to CHF (on-going)								✓		Around US$10 million

CLOSED/ONGOING/ PLANNED ACTIVITIES	DONORS									COMMENTS
	DFID	EIB	EU	IFC	Info Dev	GIZ	ISDB	USAID	AFD	
Technical assistance to DEF to develop micro Islamic financing products (US$300,000)							✓			As part of a US$10 LOC for Islamic microfinance
Grant and TA for Local economic community development focused on NGO's and local community initiatives and activities (planned)								✓		Around US$40 million in grants and TA
Theme 3: Incubation, Mentoring, Business Development Services, & Linkages to Risk Capital for MSMEs										
JUMP II : (Active, closes end of 2015) (euro 25 million)			✓							Focusing on the industrial sector - activities include: a. Grants to companies b. Technical Assistance c. TA to JEDCO (including setting up one PIU)
Grant to the incubator the "National Consortium for Technology and Business Incubation (NCTBI)" (Active). US$350,000					✓					iPark at the Higher Council of Science and Technology (HCST) is one of five members of the Jordan Innovation Centers – JIC. NCTBI is a member of InfoDev's incubator network in the MENA region
Grant to Agro-Industries Business Incubator at Jordan University (Active)					✓					One of five members of the Jordan Innovation Centers – JIC- a network of business incubators, and is member of InfoDev's network of incubators.
Queen Rania Center for Entrepreneurship (QRCE) is a member of infoDev's network of incubators (active)					✓					
SABEQ program (2006- 2012) for enhancing competitiveness of clusters in the Jordanian economy (active) US$77.3 million.								✓		Support to enterprises, including MSMEs to enhance their competitiveness, their market offering and export potential, their production, as well as their business/ management skills
Venture capital window - The Early Stage Fund (planned)		✓								targeting companies at early stage of development
Venture capital window -Capital for growth fund (planned)		✓								Targeting mature companies: Agreed allocation so far: € 5 million from EIB and € 2 million from Capital Bank.

CLOSED/ONGOING/ PLANNED ACTIVITIES	DONORS									COMMENTS
	DFID	EIB	EU	IFC	Info Dev	GIZ	ISDB	USAID	AFD	
Mezzanine fund through Capital Bank		✓								Invest in MSMEs a. Risk capital b. Technical assistance
JSMP II (recently launched). Euro 15 million			✓							a. Support to SMEs in the services sector, technical assistant and grants b. Technical assistance for JEDCO including setting up one PIU
SRTD II (Planned). Euro 5 million			✓							Support to research and innovation focusing on industry research, SME's and researchers direct grants
Ariz Program (planned). Euro 1 million									✓	Around euro 1 million in TA to JEDCO to accompany the guarantee program
Start-up program (BP 200,000)										Funding bootcamps and start-up with Oasis 500
Shell Foundation Program (BP 6 million of which 0.5 million from DFID)	✓ ✓									TA to SMEs and linking multinationals to SMEs + lending to SMEs
Grant to JEDCO (recently launched). US$30 million								✓		a. TA to SMEs that receive grants or loans (business plans, financial statements and application) b. Grants for SMEs in certain sectors such as EWE, women…etc. c. TA to JECDO itself

ANNEX 13

OP 8.30 REVIEW

1. The operation will comprise a line of credit channelled through the CBJ to banks that either have an active MSME portfolio or the willingness and capacity to develop one. The CBJ is the regulatory and supervisory authority of the banking sector. The main objective of banking supervision is to maintain the safety and soundness of the banking system in order to protect depositors' funds and shareholders' equity and to ensure positive contribution of banks in financing the growth of the national economy. The regulatory and supervisory framework can be considered satisfactory.

2. Commercial Banks are the only major constituent of the financial sector and banking sector credit stands at an impressive 77 percent of GDP. There are three specialized credit institutions viz., Agricultural Credit Corporation, Housing & Urban Development Corporation and Cities and Village Development Bank. 22 Commercial Banks (13 National and 9 foreign banks) operate in the country. In addition, there are four Islamic Banks. The branch distribution network of banks as at end of 2011 was in the country and 165 abroad. [25]

A. Banking Sector Performance Overview and Stability

3. The banking sector exhibited resilience to the external adversities. Though post the global financial crisis, there were some stresses in the sector, the banking sector's overall performance has not been affected.

Table A13.1: Banking Sector –Financial Soundness Indicators 2007-2011 (*percent*)

Soundness Indicators	2007	2008	2009	2010	2011
Growth Rates					
Total Assets	10.9	11.4	7.4	9.6	7.9
Credit Facilities	16.1	17.2	2.1	8.6	9.8
Customer Deposits	9.6	13.2	12.1	10.9	8.3
Capital Adequacy	20.8	18.4	19.6	20.3	19.3
NPLs to Total Loans	4.1	4.2	6.7	8.2	8.5
Loan Loss provision coverage	67.8	63.4	52.0	52.4	52.3
Leverage Ratio (near liquid assets to total assets)	13.3	12.9	13.0	13.1	13.1
Net Profit before Taxes (*JD billion*)	568.8	564.3	460.4	523.4	516.6
Net Profit After Taxes (*JD billion*)	400.0	400.0	333.0	365.7	382.3
Return on Assets	1.6	1.4	1.1	1.1	1.1
Return on Equity	12.6	11.5	8.8	8.8	8.3

4. The financial soundness indicators of the banking system (Jordan Branches), being monitored by the central bank is reflective of this as could be seen from Table A13.1 above.

[25] Source: Jordan Banking System (End of 2011) CBG.

5. In the financial year from January to August 2012, deposits of licensed banks grew by 3.2 percent compared to the corresponding period of the previous year and stood at JD25,158 million and foreign currency deposits increased by 22.1 percent and stood at JD1,163 million. Credit facilities extended by licensed banks grew by 9.2 percent in the first eight months of 2012 over the corresponding period of last year and the outstanding credit stood at JD17, 314 million. Commercial Banks" time-deposit rates (weighted average) stood at 3.78 percent, higher by 32 basis points over the rate that was prevailing as at end 2011, saving deposits interest rate at 0.70 percent.

6. ***Supervisory framework.*** The central bank's supervision pays close attention to risks, internal control, internal audit and anti-money laundering departments as well as to the application of sound corporate governance. There is effective off-site and on-site supervision of the banks' overall operations at annual frequencies. Based on the internal risk assessment, if the bank's performance and operations are considered quite satisfactory, on site supervision is undertaken once in two years. On-site supervision includes conducting onsite visits to banks to verify their compliance with the effective laws, regulations and instructions, as well as comprehensively evaluating the banks' conditions, especially the administrative and qualitative aspects which are difficult to evaluate through the analysis of financial reports such as the management quality and adequacy of internal control systems.

7. CBJ uses the CAMEL and ROCA rating system to assess local banks and foreign banks respectively. CAMEL system takes into consideration the elements of capital, asset quality, management, earnings and liquidity. ROCA system takes into consideration the element of risk management, operational control, compliance and assets quality. By using such a system, a composite rating (1-5) is given to a bank. The best rate is (1) i.e. "strong", (2) "satisfactory", (3) "fair", (4) "marginal" and (5) "unsatisfactory". In the event that a bank is given a rate ranging from 3 to 5, this requires corrective actions. The worse the scale is, the more stern actions the central bank will take in accordance with the legislative authority conferred on them, which include prohibition of a bank from exercising some activities, dissolving the board of directors, merging it with another bank or cancelling its license.

8. ***Interest rates.*** Effective May 31, 2012, CBJ raised the interest rate on the overnight window deposit facility by 50 basis points, maintaining however the interest rate on other monetary instruments viz., Re-discount Rate at 5.00 percent, Interest Rate on Overnight Repurchase Agreements at 4.75 percent and overnight Window Deposit Rate at 3.25 percent. With the aim of providing adequate liquidity to the banking system and minimizing volatility in interest rates in the interbank market, the CBJ introduced a new operational framework that includes the weekly repurchase agreements facility and outright open market operations. The interest rate and the volume of the weekly repo facility will be determined by the CBJ. The interest rate on the last repurchases in the last week of August 2012 stood at 3.75 percent. Prime lending of commercial banks stood at 8.38 percent as at end August 2012, 16 basis points higher than its level at the end of 2011 and weighted interest rates on overdraft as at end August 2012 stood at 8.96 percent. Interest spread between loans and deposits (time) stood at 508 basis points as at end August 2012, a decline by 13 basis points as at end FY 11.

9. With regard to the Project, interest rates are liberalized and the banks are free to lend at market related rates. The proposed Project operations do not envisage any market distortions as the banks are free to charge interest rates to the borrowing clients, as determined by their policies.

10. ***Directed credit.*** The Project does not envisage any mandated credit flow to the targeted sector vis-à-vis MSMEs. Being an MSME Project, it is stipulated that the Bank's funds should go to this sector on market based terms.

11. ***Subsidies***. The Project does not envisage any subsidy program.

B. Eligibility criteria for Participating Financial Institutions (PFIs)

12. In order for a bank to qualify to access fund for the Project, it must meet the eligibility criteria outlined below and detailed in the Operations Manual: [26]

- ***Past experience*:** A demonstrated track record of running an MSME lending portfolio for at least three years or, in case of PFIs new to this business, presence of a head of MSME operations with at least three years of relevant experience; in case of lending to MFIs, past experience of such lending and MFIs too will have to meet the criteria listed here.
- ***Overall banking performance*:** The PFI needs to have an acceptable rating on the CAMEL/ROCA based assessment undertaken by the CBJ. It is proposed that a minimum score of three is necessary.
- ***Loan collections quality*:** An acceptable level of net non-performing loans (90 days) of no more than 8 percent or else has a clear action plan to improve collections.
- ***Capital adequacy*:** An acceptable level of capital adequacy (minimum 12 percent).
- ***Earnings*:** An acceptable level of earnings quality in the last financial year (minimum return on assets of 0.3 percent).
- ***MSME strategic focus*:** a business plan for the PFIs MSME operations for growth; and/or experience of microfinance
- ***Accounting*:** Availability of audited accounts with no significant unresolved observations from audit reports.

13. Once deemed eligible, banks will be selected for lending under the Project based on an appraisal of their proposals submitted to CBJ. As a central bank, CBJ undertakes detailed on-site and off-site appraisals of commercial banks under its supervision, with the frequency being determined based on the risk profile of the bank. The method used is a CAMEL based approach and this will be drawn upon in making an assessment of banks' proposals under this Project.

14. Proposals will be assessed by CBJ based on an assessment of: (i) the quality of financial performance; (ii) management strength of the bank; (iii) the banks' strategy and plans for MSME portfolio growth; and (iv) quality of proposal, including in terms of the 'additionality' they entail in financing MSMEs–for example in introducing new products, reaching particularly underserved regions or new MSMEs, innovative use of delivery channels including MFIs, etc. The following broad framework is proposed in Table A13.2

15. Proposals that score 3.5 and under will be considered for funding under the Project.[27] Through such use of defining access to funds based on performance and proposal technical content and management capacity for implementation, the Project will have a strong signalling effect. Adherence to these criteria will be ascertained by CBJ's PIU as part of the PFI funding

[26] The levels indicated here could be fine tuned over time in which case they would be discussed and agreed with the Bank team and the changes then updated in the Operations Manual.

[27] With respect to banks' lending to MFIs, the MFIs will be expected to adhere to this framework as well. The Bank team will be prior approving each lending proposal and will specifically check on this.

appraisal process and the Bank supervision team will monitor the adherence to OP 8.30 and the OM as part of the implementation support missions.

Table A13.2: Framework for Proposal Assessment

Overall Institutional Performance	Parameters		Score range (1 best, 5 lowest)	Weight	
	CAMEL	ROCA		CAMEL	ROCA
	Strength of capital	Risk management	1-5	15	18.75
	Asset quality	Operational controls	1-5	15	18.75
	Earnings quality	Compliance	1-5	15	18.75
	Management quality	Asset quality	1-5	15	18.75
	Liquidity	-	1-5	15	-
MSME capacity and proposal	Value addition of the proposal (product innovation, under-served areas, women, youth focused, etc.)		1-5	10	
	Management capacity for MSME operations (staff quality, MSME department, performance of SME portfolio, business plan)		1-5	10	
	Efficiency in lending (pricing, cost efficiency)		1-5	5	
Overall				**100**	

16. ***Financial & Operational Appraisal of potential PFIs–summary of the finding.*** On-site appraisal meetings were held in respect of two reviewed PFIs and desk review of three PFIs were conducted which represents a large share of the banking sector (both in terms of numbers of banks and banking sector assets, as these are amongst the five largest banks). Given the data availability was from the CBJ in addition to the banks themselves, a desk review of three banks was quite detailed and entailed almost as much effort as the on-site reviews. These reviews confirm that all the five potential participating banks – which represent a substantial portion of the banking sector meet the O.P.8.30 eligibility criteria prescribed for PFIs.

17. The main elements of the appraisal findings are summarized below.

18. All the five PFIs are licensed commercial banks and four of them have been in operation in the country for over four decades and one viz. Arab Banking Corporation (ABC), Jordan for over two decades.[28]

- **Arab Bank, Jordan**, is one of the largest commercial banks in the country with an asset base of JD24 billion as at FY 11. It has been in operation for nearly eight decades, with an extensive distribution network of 79 branches in Jordan and 107 branches abroad. It has also host of subsidiaries numbering 12 engaged in financial services.
- **Housing Bank for Trade and Finance (Housing Bank)** amongst the reviewed PFIs is also comparatively larger bank with an asset base of near JD7 billion as at FY 11. It has been in operation for four decades. Starting off as a housing finance bank, after two

[28] In addition, Housing Bank and Capital Bank's appraisal systems in lending to MFIs was also reviewed. This was found to be compliant with the conditions and framework listed above and was reflected in a sound, zero NPL, and steady MFI portfolio in these banks. In summary the banks' assess the MFI's financial performance using standardized appraisal tools that have been developed in house and fine tuned with inputs of leading international rating agencies including Moodys. The tools cover critical aspects of capital adequacy, profitability, margin and asset quality analysis, management quality and internal controls and governance. The tools reviewed were robust, and compliant with the requirements of the framework in this Annex, and with OP 8.30 provisions. The strong appraisal system was complemented by detailed monitoring requirements, including sample checks of clients, field visits, periodic MFI management meetings. Both banks reviewed were found to have excellent asset quality in the MFI portfolio and were clearly selective in choosing strong MFIs to partner.

decades of operations, it had diversified its scope and became a comprehensive bank and provides full commercial banking services. The bank has largest domestic branch distribution network in Jordan with 105 branches. It has 13 branches abroad and five subsidiaries.

- **Jordan Ahli Bank and Cairo Amman Bank** are mid- sized banks with an asset base of a near JD3 billion and JD2 billion respectively. Cairo Bank has extensive branch network of 66 branches in Jordan and 19 branches abroad.
- **Jordan Ahli Bank** grew. It has a branch network of 50 branches in Jordan and six branches abroad.
- **Arab Banking Corporation (ABC Bank)**. ABC Bank (Arab Banking Corporation), Jordan, is the subsidiary of Arab Banking Corporation (ABC), a universal bank headquartered in Manama Kingdom of Bahrain. The parent entity Arab Banking Corporation, popularly known as ABC, is an international Universal bank headquartered in Manama, Kingdom of Bahrain. ABC's network spreads over 21 countries in the MENA and GCC, Europe, the America and Asia. ABC, founded in 1980, is listed on the Bahrain Bourse; its major shareholders are the Central Bank of Libya, and Kuwait Investment Authority. ABC is a leader in Trade Finance, Treasury, Project & Structured Finance, Syndications, Corporate & Institutional Banking as well as Islamic Banking. Arab Banking Corporation, Jordan was incorporated in Jordan in 1989 as a Jordanian public shareholding company. It has now 25 branches in Jordan spread mainly in Amman and the seven other main cities namely, Zerka, Irbid, Karak, Madaba, Mafraq, Al Salt and Aqaba. It has an asset base of s JD740 million, customer deposit of JD463.8 million and loan portfolio of JD389 million as at end of FY11. The bank's business focus is more on corporate and retail.

19. ***Key Business Indicators.*** Table 13.3 below captures the key business indicators of these five reviewed PFIS. All the banks, except ABC, have an exposure to SME sector. Jordan Ahli Bank in particular has developed a SME growth vision document and has evolved strategic plan for growing SME portfolio, with diversified product suite. It has recently made a soft launch of "SME Academy" to provide SME entrepreneurial capacity building inputs for SME entrepreneurs. It has also deployed SME Toolkit.

Table A13.3: A Snap Shot Overview of the Reviewed PFIS *(As of 31st Dec 2011)*

Name of Bank	Opera -tions Since	Asset Size	*Net Loans	SME Loans	Customer Deposits	Loan to Customer Deposit (%)	No. of Branches^		No. of Subsidiari es
							Jordan	Abroad	
Arab Bank	1930	23.921	10.004	0.600	14.682	68	79	107	12
HBTF	1973	6.9	2.502	00.321	4.834	52	105	13	5
Jordan Ahli Bank	1956	2.617	1.178	0.192	1.705	69	50	6	6
Cairo Amman Bank	1960	1.940	0.948	00.047	1.375	69	66	19	2
ABC Bank	1989	0.740	0.389	NA	0.463	84	25	-	1

*Net of Interest Suspense & Loan Loss provisions
Source: CBJ Jordan Banking System – end 2011": Rest of data: Banks' Annual Reports

20. ***Capital adequacy compliance.*** The regulatory capital minimum is 12 percent of the risk weighted assets subject to a minimum capital of JD100 million. The minimum capital

prescription is applicable to ABC Bank. The regulatory capital is reckoned on the primary capital and supplementary capital of the bank. Primary capital comprises paid up-capital, legal reserve, voluntary reserve and retaining earnings. Intangible assets and investments in banks and financial institutions equity are to be deducted from primary capital. Supplementary capital comprises cumulative change in fair value and general banking reserve. The central bank regulatory capital adequacy prescription is 12 percent. All the five PFIs maintain capital adequacy prescribed by the central bank's regulations via-à-vis 12 percent. In the case of ABC, it has to also meet the minimum paid up capital requirement of JD100 million; as against this stipulation, currently the paid up capital is JD89.6 million and the bank's board in their report for the financial year ended 31st December 2011 have indicated that by the third quarter of 2012, they plan to meet this prescription. The central bank has indicated that this has now been met–something that will be reaffirmed at appraisal.

21. Housing Bank for Trade & Finance has the high capital adequacy ratio of 20.69 percent, followed by Arab Bank at 15.09 percent and Cairo Bank at 15.00 percent. Jordan Ahli Bank CAR is just above the regulatory minimum. ABC Bank has a high CAR and has recently met the minimum capital requirements as well, as confirmed by CBJ.

22. The central bank is closely monitoring the capital adequacy compliance by banks. For instance, FY10, it had specifically directed Jordan Ahli Bank to shore up its equity base to conform to the regulatory prescription and in compliance the Bank in FY 10 was able to mobilize equity at a marginal premium.

23. ABC Bank has also increased its paid-up capital during the financial year 2011 by JD9.6 million, taking the total paid up capital to JD89.6 million. It plans to shore up its paid up capital to JD100 million during the third quarter of 2012[29] and thus meet the other regulatory prescription of minimum capital of JD100 million. Since its parent entity of ABC, Bahrain holds 87 percent of the capital of ABC (Jordan), its capital needs on on-going basis has to be met by the parent entity. The Central Bank of Libya ("CBL") is one of the founding shareholders, owning a majority of the shares - 59.37 percent - in ABC Bahrain. The Kuwait Investment Authority, another ABC founding shareholder, holds 29.69 percent of the shares. Each of the foregoing shareholders is either a governmental entity or is (directly or indirectly) owned by a governmental entity in its jurisdiction of establishment. International and regional investors hold the remaining shares of ABC. Thus the parent entity's shareholding structure is strong and it should be able to support to the subsidiary bank ABC Jordan with its capital needs.

Table A13.4: Capital Adequacy *(31st Dec 2011–JD billion)*

Name of Bank	Capital (Primary & Supplementary, net of	Total Assets	Risk Weighted Assets	Capital Adequacy (Regulatory) (%)	Capital Adequacy (Primary Capital) (%)
Arab Bank	2.280	23.921	15.107	15.09	13.96
HBTF	0.844	6.398	4.078	20.69	20.31
Jordan Ahli Bank	0.217	2.617	1.766	12.26	11.60
Cairo Amman Bank	0.185	1.940	1.235	15.00	14.04
ABC Bank	0.105	0.697	0.357	29.17	28.35
Banking Sector Average 19.3 percent					

[29] ABC Board of Directors Report for FY ended 31st Dec 2011

24. ***Asset quality.*** Net NPL of one of the largest banks viz., Arab Bank has also been low at 1.03 percent with a provision cover of 85 percent. Cairo Bank, through its prudential operations and loan loss provisioning policy has maintained consistently a very low non-performing loan level. Net NPL of the Bank stood at a low of 0.28 percent as at end FY11. Its loan loss provision cover has been the highest at 94.3 percent.

Table A13.5: Non-Performing Loans *(31st Dec 2011—billion JD)*

Name of Bank	Total Loan outstdg (net)*	Non-Performing Loans JD billion	Non-Performing loans to total loans (excluding interest in suspense) (%)	Loan Loss Prov. Held JD billion	Loan Prov. coverage Ratio (%)	Net PLs (%)	Net NPL (Net of loan loss prov)/Equity (%)
Arab Bank	10.004	0.832	6.4	0.579	85	1.03	2.67
HBTF	2.502	0.269	8.2	0.162	74	2.27	5.4
Jordan Ahli Bank	1.178	0.176	9.71	0.088	71.6	2.96	13.7
Cairo Amman	0.948	0.58	4.83	0.045	94.3	0.28	0.01
ABC Bank	0.372	0.020	5.12	0.012	82.50	0.25	2.3
Banking Sector Average					**52.30**		**13.4**

**Excluding interest in suspense &allowance for impairment losses.*

25. Housing Bank for Trade & Finance net NPLs stood at 2.27 percent and the provision cover at 74 percent. Jordan Ahli Bank's net NPLs at 2.96 percent however is the highest amongst the reviewed PFIs and its provision coverage was also at a low of 71.6 percent.

26. ***Adequacy of profitability.*** The entire reviewed PFIs have sustained their earnings record in the last three financial years. Return on Assets has been the highest for Cairo Amman at 1.89 percent, followed by Housing Bank for trade and finance at 1.5 percent, ABC Bank at 1.49 percent and Arab Bank at 1.1 percent. Jordan Ahli Bank's return on assets stood comparatively lower to the peers at 0.89 percent.

27. ***Liquidity.*** Loan to Deposits ratio of the reviewed PFIs stood at acceptable level at a near 70 percent for three of the PFI and at a low of 52 percent for Housing Bank for Trade & Finance. ABC bank Loan to Customer Deposits as at end FY11 stood at84 percent. Their near cash short term liquid asset holdings provide reasonable comfort to tide over any short-term liquidity tightness in the market. Since the tenor of the customer deposits of most of the banks is short-term, there is an inherent asset maturity mismatch in the portfolio. Though customer deposits are short-term, given the operating history of the bank and the depositors' confidence the bank enjoys, there is no medium term risk of continued flow of liquidity to the banks through customer deposits to support the loan book build-up.

Name of Bank	Net Interest Income	Comm. Income	Other Income	Total Op. Income	Total Op Exp incldg provn.	Staff Exp.	Profit Before Tax	Profit After Tax	RoA (%)	RoE (%)
Arab Bank	0.506	0.154	0.132	0.792	0.458	0.183	0.334	0.263	1.1	6.9

Housing Bank for TF	0.202	0.035	0.064	0.301	0.165	0,062	0.136	0.100	1.5	9.5
Jordan Ahli Bank	0.078	0.021	0.013	0.112	0.078	0.035	0.034	0.023	0.89	9.1
Cairo Amman Bank	0.081	0.019	0.015	0.115	0.064	0.032	0.051	0.037	1.89	16.4
ABC Bank	0.023	0.003	0.007	0.033	0.009	0.008	0.014	0.013	1.70	12,30
Banking Industry Average									**1.1**	**8.3**

Table A13.6: Earnings for FY Ended *(31st Dec 2011 JD billion)*

28. ***Capacity to mobilize domestic resources.*** The entire reviewed PFIs have a strong domestic distribution network, supported by ATM network and good franchise. Their track record in mobilizing resources from retail customers has been good.

29. ***Financial disclosures.*** All reviewed PFIs, in compliance with the supervisory guidelines have implemented IFRs accounting and the audited financials are in accord with these accounting standards. There are adequate disclosures in the financial statements of banks in adherence to the supervisory prescription of the central bank. The Annual Reports disclosures are also in accord with the central bank mandate.

30. ***Corporate governance.*** The governance structure at the Board level is very well laid. All Banks have constituted Audit Committee and Risk Management Committee, apart from other committees like Corporate Governance Committee, Nomination Committee, and Investment Committees. Board of banks has adopted Corporate Governance Code and there is also the practice of self-assessment by Board on its own performance and the performance of its Committees on annual basis. Related party transactions are disclosed in the annual reports. There is a well laid organization structure and the top and senior management team of all the PFIs has fair insights into the business operations of the bank.

31. ***Internal controls.*** Adequate emphasis on Internal Controls is placed by all banks. The sample PFIs visited confirm that branches are subjected to annual on-site internal audit by the Bank's internal audit team and grading accorded based on the risk profile of the branches. Branches classified as "High risk" based on the internal audit findings are audited at accelerated frequency. Compliance with audit observations receives top priority to ensure prompt remediation of deficiencies. Internal audit and control mechanism operating in the sample PFIs is found to be satisfactory.

32. ***External audit.*** All reviewed PFIs have appointed external statutory auditors to audit the financials of the bank for audit of the annual and quarterly financials. External auditors are of good standing.

33. ***Supervisory rating of banks.*** All the five potential participating banks are accorded supervisory rating of "3" ("Fair") under CAMEL framework

34. In sum, based on the review conducted of the reviewed PFIs, it is confirmed all the five commercial banks identified as potential participating financial institutions are qualified to act as conduit for re-lending the World Bank's fund to the SME sector or microfinance clients, as required under the Bank's OP 8.30.

35. ***Financial and operational appraisal of CBJ.*** CBJ is the "Project Implementing Entity" under the Project. While on-lending will be done by PFIs and not CBJ, a financial and

operational appraisal of CBJ was however undertaken. The main elements of the appraisal are briefly captured below.

36. CBJ was established in the year 1964, and it enjoys the status of an independent and autonomous corporate body, although its capital is owned entirely by the Government. Autonomy of the central bank is enshrined in a legislative enactment "Central Bank of Jordan Law No 23 of 1971. The main objectives stipulated in the charter of CBJ is to maintain monetary stability and ensure the convertibility of the Jordanian Dinar and an interest rate structure consistent with the level of economic activity thereby contributing towards a sound macroeconomic environment. CBJ also strives to ensure the safety and soundness of the banking system and the resilience of the national payment system.

37. The Appraisal confirms CBJ has been effectively performing its main functions in the matter of maintaining monetary stability and ensuring the safety and soundness of the banking system. It has been performing its regulatory and supervisory role over commercial banks effectively. The CBJ's internal organization structure and governance is satisfactory.

38. The financial analysis however indicates that the Statutory Auditors' qualifications may have an impact on the financials of the bank. The auditors' qualifications primarily relate to four specific financial assets, one of which is to a sovereign and the other is due to bail out operations of "distressed banks", undertaken with the objective of protecting the depositors and maintaining stability in the banking sector and the other two are relating to valuation of the long term financial instruments at par instead of at net present value as per IFR accounting standards. Provisioning in the financials of the bank against these commented assets will impact the bank's profits of the Bank and owned funds. CBJ is a Government-owned entity. It is provided in the statute that should the reserves of CBJ be inadequate to cover any losses in the statement of income for any fiscal year, the Government has to pay an adequate amount for this coverage. The amount is considered a preferred debt to the Government deductible from the profit achieved in subsequent periods.

39. To conclude, based on the above Operational and Financial Appraisal of CBJ, it is confirmed the Bank is qualified to act as the "Project Implementing Entity" for re-lending the World Bank's fund to the commercial banks, as required under the Bank's OP 8.30. Further, although the central bank's regulatory focus is of maintaining monetary stability and ensuring the soundness of the banking sector, for administering the line of credit under the Project, CBJ has agreed to constitute a "Project Implementation Unit" under its banking supervisory department, with adequate staff support. Given the track record of the central bank's strong supervisory oversight over commercial banks–off-site and on-site, appraisal and monitoring of the credit line under the Project, it is expected, will be handled efficaciously

C. On-lending Terms

40. As mentioned above, there is no market distortions envisaged through the line of credit. The line is open to all banks that meet the eligibility criteria and a clear appraisal system has been established. Banks that are selected will need to adhere to the project implementation guidelines and with respect to pricing loans to MSMEs, they will be free to set them at commercial rates, factoring in costs, risks and margins.

D. Monitoring

41. A strong M&E framework to track inputs, outputs, and outcomes in a systematic and timely fashion will be developed and agreed with CBJ. Project outcomes and outputs will be monitored through periodic reporting by CBJ, which has considerable capacity in monitoring given its role as a central bank, in addition to its experience of handling previous donor projects. Data will be collated by the CBJ which in turn will collect mainly from the participating banks. Some of the data will be generated through independent baseline and follow up surveys to be undertaken. In addition data sources for project monitoring will include supervision efforts of the PIU as well as implementation support missions undertaken by the World Bank team. The midterm review (MTR) of the Project will entail an update of an institutional assessment of CBJ and PFIs, including on management, appraisal standards, and portfolio quality.

42. The PIU would carry out annual supervision of a sample of sub-projects, including cumulative impacts and impacts on labour safety and conditions. Indicators broad enough to cover all sub-project types, that measure multiple impacts, and are simple to collect would be used by the Project, monitored by the external auditors of the banks, and collected by the PIU. They include number of sub-projects in compliance with national and Bank environment regulations and policies at approval and one, two and three years after start-up (i.e. the number of projects correctly being compliant with the Project safeguards framework). Sub-projects would also carry out their own monitoring and supervision, by monitoring indicators appropriate to impacts, such as air quality, water quality, and impact on biodiversity. The Bank team will–during implementation support missions and in the prior review of proposals–continue to check for OP 8.30 (and OP 10.02) compliance.

ANNEX 14

IMPACT EVALUATION

1. One of the key indicators to be monitored through this operation is the employment at MSMEs that had access to finance through the Line of Credit. This will be assessed through undertaking an Impact Evaluation. The Baseline Questionnaire (below) will be filled out for a sample of surveyed MSMEs by a survey firm at the end of the first year of implementation.30 This impact evaluation would be undertaken by the World Bank in collaboration with CBJ. The impact assessment will be carried out in two phases as follows:

2. *Phase I: Baseline & Monitoring Surveys:* The first phase of the impact assessment involves undertaking a Baseline Survey for documenting the status of MSMEs as at end of 2011 (or 2012) in certain set of indicators derived from the Project Results Framework. The survey will include both beneficiary firms (treatment group) and non-beneficiary firms (control group). This will serve to set a benchmark for future measurement of the impact of the Project on the various beneficiaries vs. non-beneficiaries.

3. *Phase II: Impact Assessment and Results Monitoring:* The second phase of the Project will undertake an end-of project survey of the same beneficiary (treatment) and non- beneficiary (control) MSME for the same set of indicators at the end of the Project to measure the actual impact. A mid-term survey will be rolled-out at the end of year 3 to measure the interim impact of the Project on the same set of beneficiary and non-beneficiary MSMEs.

Questionnaire for MSME Units
Name of Owner: ___ **Date of Interview:**
Type of Unit __ **Address of Unit:**
City code/Governorate: __

1. Promoter details
Gender of main owner: Male / female. _____

2. Operations (details as December 31, 2011) Code

- Type of ownership - Proprietorship 1
- Partnership 2
- Private Limited 3
- Any other (Please specify) 4

	2011
Type of ownership (Code)	

- **A. (If Industrial sector) Nature of operations** **Code**
  - Manufacturing M

i. Therapeutic industries and medical supplies 1_____
ii. Plastic and rubber industries 2_____
iii. Chemical industries and cosmetic preparations 3_____
Engineering, electrical and information
iv. Technology industries 4_____
v. Wood and furniture industries 5_____

[30] This questionnaire has been prepared in consultations with the Jordan Chamber of Industry and Jordan Chamber of Trade, as well as representatives from the private sector and MSMEs industry.

vi. Construction industries 6_____
vii. packaging ,paper, carton, and office equipment industries 7_____
viii. Food, Agricultural and Animal stock industries 8_____
ix. Textile and readymade Garment Industries 9_____
x. Mining Industries 10_____

- **B. (If Commercial sector) Nature of operations** **Code**
  - Manufacturing/Commercial M/C
  - (Circle one) and specify category below:

i. Auto and Auto components 1_____
ii. Engineering 2_____
iii. Fruits & Vegetables processing 3_____
iv. Electrical and Electronics 4_____
v. Textiles and Garments 5_____
vi. Carpets and Floor coverings 6_____
vii. Leather and leather products 7_____
viii. Consumer goods 8_____
ix. Pharmaceuticals 9_____
x. Other Food processing 11_____
xi. Knitted apparel 12_____
xii. Others (please specify) 13_____

- **Service sector** S_____
  - Type of services

_____

3. Operational profile:

A. (If Industrial) (for the year 2011):

	Unit	**2011**
Sales turnover	JDs	
Exports	JDs	
Profit (Loss)	JDs	
Total value of Fixed Assets (Land, Building, P&M etc.)	JDs	
Total Employees aggregated by age group (18-35 yrs) (36-60 yrs)	No.	_____
Women employees (out of total number of employees)	No.	

B. (If Commercial) (for the year):

	Unit	**2011**
Sales turnover	JDs	
working capital	JDs	
Profit (Loss)	JDs	
Total assets (Fixed+current)	JDs	
Total Employees aggregated by age group (18-35 yrs) (36-60 yrs)	No.	_____
- Skilled workers	No.	
- Unskilled workers	No.	
Women employees (out of total number of employees)	No.	

4. National / International certifications – Code 1 for Yes, 2 for No

	2011
NOC from Pollution Control Board	
Quality management (ISO 9000/BIS ….)	
Environment Management (ISO 14000 …)	

	2011
Health & Safety (OHSAS…..)	
Any other	

5. **Steps taken towards compliance with Environmental/Social Guidelines of The Word Bank**

6. **Business growth trend and future plans: 1 for Yes, 2 for No**

	2011	Future plans
Expansion (capacity increase, new unit etc.) – please indicate product wise		
Technology upgrading (induction of new P & M)		
Product diversification (new products added in last two years)		

7. **Nature of financing received:**
   A. **(If Industrial) from local banks or MFIs:**
   - Term loan _____
   - Working Capital loan _____

   B. **(If Commercial) from local banks or MFIs**
   - Term loan _____
   - Working Capital loan _____

8. **Term Loan Financing:**

   A. **(If Industrial):**

Total amount Approved (JD)	
Date of sanction / approval (Month and Year)	
Loan period (no. of months)	
Interest rate (%)	

   B. **(If Commercial):**

Total amount sanctioned (JD)	
Date of sanction / approval (Month and Year)	
Loan period (no. of months)	
Interest rate (%)	
Outstanding amount as on Dec 2012	
Was the loan covered under JLGC	

9. **Working Capital Financing:**
   A. **(If Industrial):**

Total amount Approved (JD)	
Date of sanction / approval (Month and Year)	
Period (no. of months)	
Interest rate (%)	

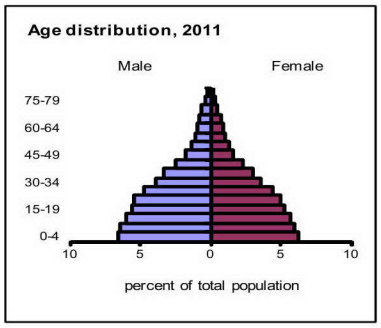
   B. **(If Commercial):**

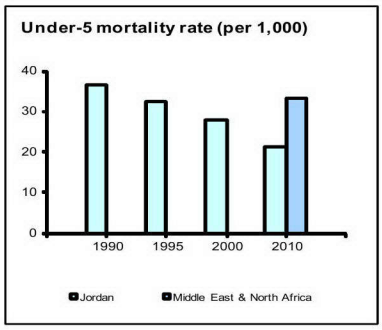
Total amount sanctioned (JDs)	
Date of sanction / approval (Month and Year)	
Period (no. of months)	
Interest rate (%)	
Was the loan covered under JLGC	

ANNEX 15

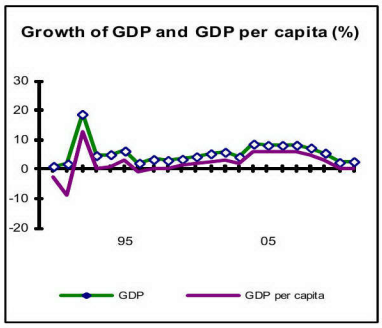
COUNTRY AT A GLANCE

Key Development Indicators	Jordan	M. East & North Africa	Upper middle income
(2011)			
Population, mid-year (millions)	6.2	331	2,472
Surface area (thousand sq. km)	*89*	8,775	61,034
Population growth (%)	2.2	1.7	0.7
Urban population (% of total population)	83	59	60
GNI (Atlas method, US$ billions)	27.1	1,281	14,502
GNI per capita (Atlas method, US$)	4,380	3,869	5,865
GNI per capita (PPP, international $)	5,970	*8,026*	9,865
GDP growth (%)	2.6	4.2	7.8
GDP per capita growth (%)	0.4	2.4	7.1
(most recent estimate, 2005–2011)			
Poverty headcount ratio at $1.25 a day (PPP, %)	<2	3	9.0
Poverty headcount ratio at $2.00 a day (PPP, %)	<2	14	20.4
Life expectancy at birth (years)	73	72	73
Infant mortality (per 1,000 live births)	18	27	17
Child malnutrition (% of children under 5)	0	7	3
Adult literacy, male (% of ages 15 and older)	95	84	96
Adult literacy, female (% of ages 15 and older)	89	68	91
Gross primary enrollment, male (% of age group)	92	108	110
Gross primary enrollment, female (% of age group)	92	101	110
Access to an improved water source (% of population)	97	89	93
Access to improved sanitation facilities (% of population)	98	88	73





Net Aid Flows	1980	1990	2000	2011 [a]
(US$ millions)				
Net ODA and official aid	1,576	952	553	954
Top 3 donors (in 2010):				
United States	50	58	188	372
European Union Institutions	11	7	81	130
Germany	24	174	44	39
Aid (% of GNI)	39.3	25.0	6.5	3.6
Aid per capita (US$)	723	300	115	158
Long-Term Economic Trends				
Consumer prices (annual % change)	11.0	16.1	0.6	4.4
GDP implicit deflator (annual % change)	1.1	11.4	-0.4	6.4
Exchange rate (annual average, local per US$)	0.3	0.7	0.7	0.7
Terms of trade index (2000 = 100)	88	93	100	77



					1980–90	1990–2000	2000–11
					(average annual growth %)		
Population, mid-year (millions)	2.2	3.2	4.8	6.2	3.7	4.1	2.3
GDP (US$ millions)	3,962	4,020	8,464	28,840	2.5	5.0	6.5
		(% of GDP)					
Agriculture	7.9	8.1	2.3	3.3	6.8	-3.0	8.6
Industry	28.0	28.1	25.5	31.1	1.7	5.2	7.3
Manufacturing	12.7	14.9	15.7	19.4	0.5	5.6	8.3
Services	64.1	63.8	72.1	65.6	2.3	5.0	5.6
Household final consumption expenditure	78.8	74.1	80.6	82.9	1.9	5.0	6.1
General gov't final consumption expenditure	28.8	24.9	23.7	19.9	1.9	4.7	4.8
Gross capital formation	36.7	31.9	22.4	25.5	-1.9	0.3	8.5
Exports of goods and services	39.9	61.9	41.8	45.6	4.8	2.6	5.1
Imports of goods and services	84.2	92.7	68.5	73.9	1.2	1.5	5.0
Gross savings	..	..	..	..			

Note: Figures in italics are for years other than those specified. .. indicates data are not available.
a. Aid data are for 2010.

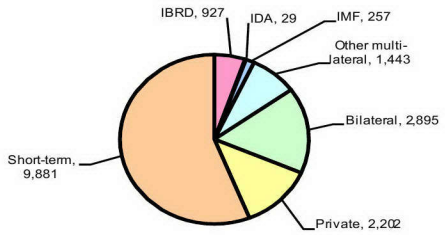
Development Economics, Development Data Group (DECDG).

Balance of Payments and Trade	2000	2011
(US$ millions)		
Total merchandise exports (fob)	1,901	8,101
Total merchandise imports (cif)	4,602	18,347
Net trade in goods and services	-2,259	-7,590
Current account balance	28	-2,892
as a % of GDP	0.3	-10.0
Workers' remittances and compensation of employees (receipts)	1,845	*3,641*
Reserves, including gold	3,434	7,329

Central Government Finance		
(% of GDP)		
Current revenue (including grants)	32.2	27.1
Tax revenue	16.0	15.2
Current expenditure	29.5	28.5
Overall surplus/deficit	-2.0	-6.2
Highest marginal tax rate (%)		
Individual	..	..
Corporate	25	*25*

External Debt and Resource Flows		
(US$ millions)		
Total debt outstanding and disbursed	11,063	17,634
Total debt service	844	933
Debt relief (HIPC, MDRI)	–	–
Total debt (% of GDP)	130.7	61.1
Total debt service (% of exports)	14.4	4.4
Foreign direct investment (net inflows)	913	1,469
Portfolio equity (net inflows)	-17	109

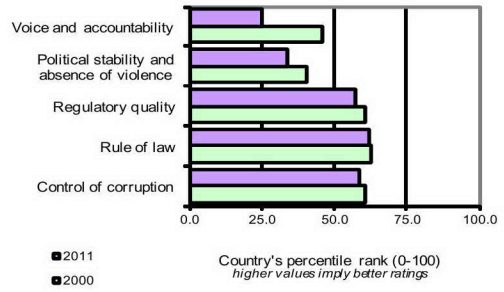
Composition of total external debt, 2011



US$ millions

Private Sector Development	2000	2011
Time required to start a business (days)	–	12
Cost to start a business (% of GNI per capita)	–	13.9
Time required to register property (days)	–	21
Ranked as a major constraint to business (% of managers surveyed who agreed)	**2000**	**2011**
n.a.	..	..
n.a.	..	..
Stock market capitalization (% of GDP)	58.4	94.3
Bank capital to asset ratio (%)	7.0	10.8

Governance indicators, 2000 and 2011



Source: Worldwide Governance Indicators (www.govindicators.org)

Technology and Infrastructure	2000	2011
Paved roads (% of total)	*100.0*	*100.0*
Fixed line and mobile phone subscribers (per 100 people)	21	126
High technology exports (% of manufactured exports)	8.0	*2.9*

Environment		
Agricultural land (% of land area)	12	*12*
Forest area (% of land area)	1.1	*1.1*
Terrestrial protected areas (% of land area)	1.9	*1.9*
Freshwater resources per capita (cu. meters)	*135*	*115*
Freshwater withdrawal (billion cubic meters)	..	..
CO2 emissions per capita (mt)	3.2	*3.7*
GDP per unit of energy use (2005 PPP $ per kg of oil equivalent)	3.5	*4.2*
Energy use per capita (kg of oil equivalent)	1,013	*1,260*

World Bank Group portfolio	2000	2011
(US$ millions)		
IBRD		
Total debt outstanding and disbursed	798	927
Disbursements	38	25
Principal repayments	53	107
Interest payments	53	12
IDA		
Total debt outstanding and disbursed	57	29
Disbursements	0	0
Total debt service	3	3
IFC *(fiscal year)*		
Total disbursed and outstanding portfolio	77	437
of which IFC own account	77	298
Disbursements for IFC own account	4	37
Portfolio sales, prepayments and repayments for IFC own account	26	8
MIGA		
Gross exposure	40	4
New guarantees	39	0

Note: Figures in italics are for years other than those specified.
.. indicates data are not available. – indicates observation is not applicable.

1/8/13

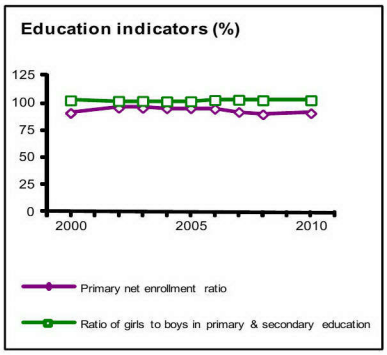
Development Economics, Development Data Group (DECDG).

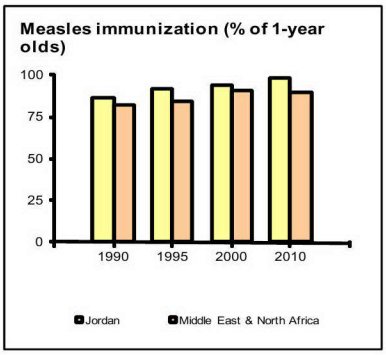
Millennium Development Goals

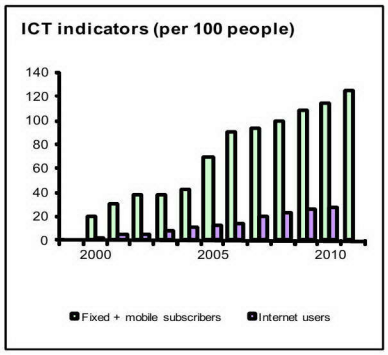
Jordan

With selected targets to achieve between 1990 and 2015
(estimate closest to date shown, +/- 2 years)

	Jordan			
Goal 1: halve the rates for extreme poverty and malnutrition	**1990**	**1995**	**2000**	**2011**
Poverty headcount ratio at $1.25 a day (PPP, % of population)	*2.8*	*<2*	..	*<2*
Poverty headcount ratio at national poverty line (% of population)	..	..	..	*13.3*
Share of income or consumption to the poorest qunitile (%)	*6.0*	*7.6*	..	*7.7*
Prevalence of malnutrition (% of children under 5)	1.0	*0.8*	*0.7*	*0.2*
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net, %)	..	..	91	*91*
Primary completion rate (% of relevant age group)	95	*95*	94	*90*
Secondary school enrollment (gross, %)	76	*85*	84	*87*
Youth literacy rate (% of people ages 15-24)	..	..	..	*99*
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	101	*102*	102	*102*
Women employed in the nonagricultural sector (% of nonagricultural employment)	*11*	12	14	*16*
Proportion of seats held by women in national parliament (%)	0	*0*	0	11
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1,000)	37	32	28	21
Infant mortality rate (per 1,000 live births)	31	27	24	18
Measles immunization (proportion of one-year olds immunized, %)	87	92	94	98
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	110	88	79	*63*
Births attended by skilled health staff (% of total)	87	*97*	*100*	*99*
Contraceptive prevalence (% of women ages 15-49)	40	*53*	*56*	*59*
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	14	12	8	6
Tuberculosis case detection rate (%, all forms)	82	91	76	*100*
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	97	96	96	*97*
Access to improved sanitation facilities (% of population)	97	97	98	*98*
Forest area (% of land area)	1.1	..	1.1	*1.1*
Terrestrial protected areas (% of land area)	0.7	1.1	1.9	*1.9*
CO2 emissions (metric tons per capita)	3.3	3.2	3.2	*3.7*
GDP per unit of energy use (constant 2005 PPP $ per kg of oil equivalent)	3.2	3.4	3.5	*4.2*
Goal 8: develop a global partnership for development				
Telephone mainlines (per 100 people)	7.2	7.2	12.8	7.4
Mobile phone subscribers (per 100 people)	0.0	0.3	8.1	118.2
Internet users (per 100 people)	0.0	0.0	2.6	35.7
Computer users (per 100 people)	..	..	..	*56.0*





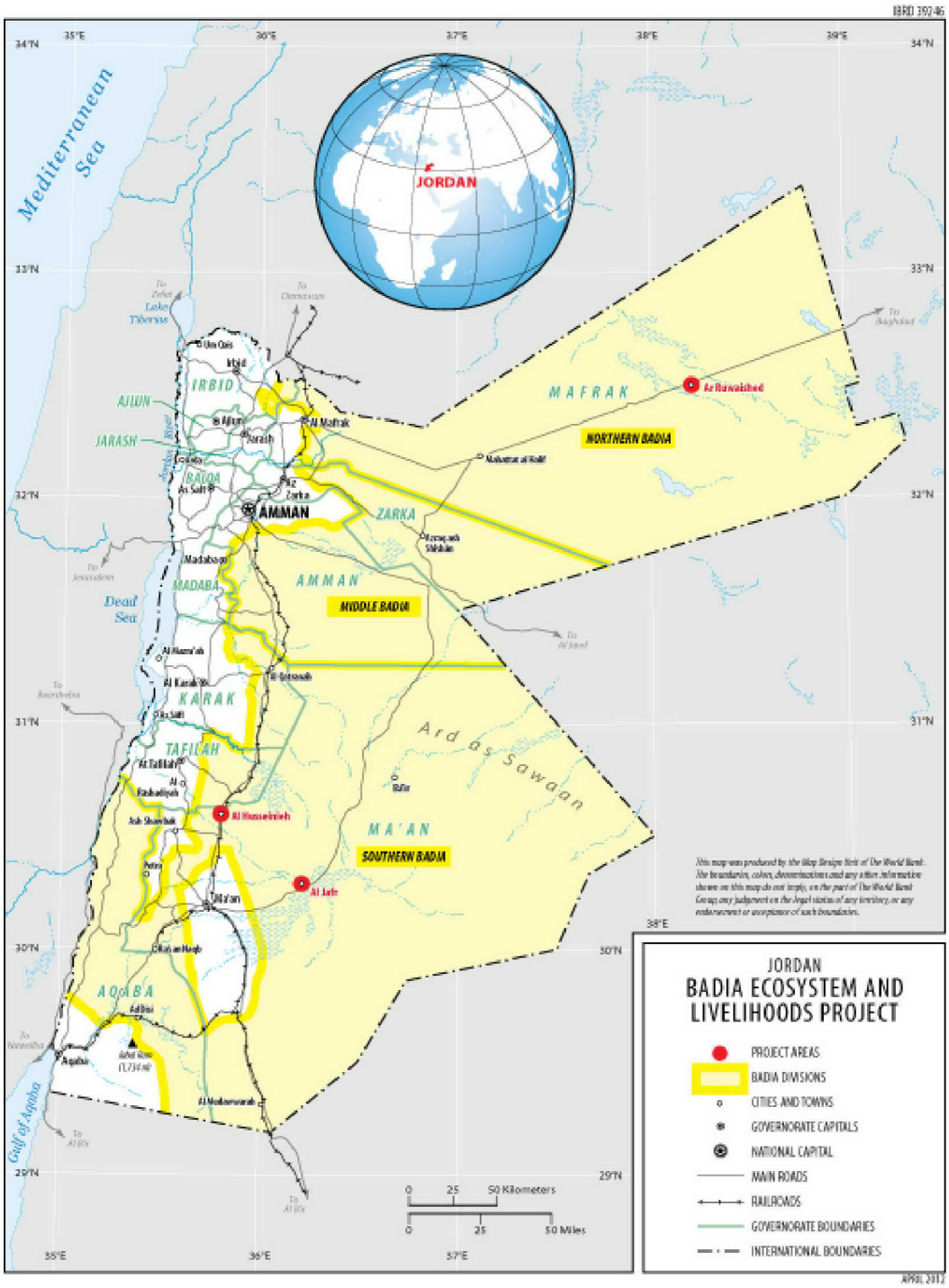


Note: Figures in italics are for years other than those specified. .. indicates data are not available. 1/8/13

Development Economics, Development Data Group (DECDG).

ANNEX 16

MAP


IBRD 39246
Mediterranean Sea
JORDAN
Lake Tiberias
Dead Sea
Gulf of Aqaba
IRBID
AJLUN
JARASH
BADIA
AMMAN
MADABA
KARAK
TAFILAH
MA'AN
AQABA
MAFRAK
ZARKA
AMMAN
NORTHERN BADIA
MIDDLE BADIA
SOUTHERN BADIA
Ar Ruwaished
Al Hussainiyeh
Al Jafr
Ard as Sawaan
Madaba
Aqaba
0 25 50 Kilometers
0 25 50 Miles
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JORDAN
BADIA ECOSYSTEM AND LIVELIHOODS PROJECT
PROJECT AREAS
BADIA DIVISIONS
CITIES AND TOWNS
GOVERNORATE CAPITALS
NATIONAL CAPITAL
MAIN ROADS
RAILROADS
GOVERNORATE BOUNDARIES
INTERNATIONAL BOUNDARIES
APRIL 2012