



Strengthening the Regulatory and Institutional Framework for MSME Deve (P147875)

MIDDLE EAST AND NORTH AFRICA | Jordan | Finance & Markets Global Practice |
Recipient Executed Activities | Investment Project Financing | FY 2014 | Seq No: 4 | DRAFT | ISR22046 |

Implementing Agencies: Central Bank of Jordan

Key Dates

Key Project Dates

Bank Approval Date:24-Jan-2014

Effectiveness Date:04-Mar-2014

Original Closing Date:31-Aug-2018

Revised Closing Date:31-Aug-2018

Project Development Objectives

Project Development Objective (from Project Appraisal Document)

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

Has the Project Development Objective been changed since Board Approval of the Project Objective?

No

Components

Name

Overall Ratings

| Name | Previous Rating | Current Rating |
|--------------------------------------|---------------------------|---------------------------|
| Progress towards achievement of PDO | ● Moderately Satisfactory | ● Moderately Satisfactory |
| Overall Implementation Progress (IP) | ● Moderately Satisfactory | ● Moderately Satisfactory |

Implementation Status and Key Decisions

The project comprises of three main components: (i) strengthening credit guarantees schemes; (ii) enhancing the consumer protection mechanism; and (iii) developing the regulatory and institutional framework for micro finance institutions and NBFIs. The total cost of the project is US\$ 3 million. **Component I: Strengthening Credit Guarantees Schemes (US\$ 1 million).** This component aims at developing the Jordan Loan Guarantee Corporation's (JLGC) SME loan guarantee products, and designing new ones that are tailored to SMEs, which are based on proper risk analysis, addressing moral hazard and adverse selection, with the objective of enhancing JLGC operations development and sustainability. The team is very pleased with the progress done under this component. JLGC support mainly includes the following:



1. **Organization and Human Resources.** There were significant gaps identified in order for JLGC to gain the required competencies, and enhance its chances for the successful implementation of the change initiatives. In this respect, JLGC has recruited two resident advisors, one for risk management (to implement and manage the risk framework transformation and reform the payment rules), and a second for product and business development (to help launch new products and revamp the existing ones, as well as oversee execution of strategic enablers). These resident advisors are currently training JLGC staff, and improving their technical know-how for changes to be sustained. The risk management strategy developed by the resident advisor was already endorsed by the Board and is currently being implemented.
2. **Knowledge.** The Director General of JLGC emphasized the importance of obtaining best practice examples from other countries in order to enhance their internal capacity and operations. Accordingly, JLGC team has already attended study tours in Malaysia, Morocco, Lebanon, and Korea. Furthermore, JLGC team participated at an SME Development conference in Egypt and utilized the opportunity to visit the Egyptian Credit Guarantee Company as well.
3. **Capacity building for banks.** There is a need to build the frontline people's capacity at banks through training, in order to allow them to better understand, bundle and sell the products and schemes that would be launched by JLGC. In this respect, JLGC has been able to improve its communication and tools with banks as a result of the enhanced processes and systems developed. In addition, an interactive workshop for banks was held at the Dead Sea in May 2015, during which the feedback on issues relating to lending and challenges from engaging with JLGC was obtained from the different business partners. JLGC also contributed to the Certified SME Officer program undertaken by the Institute of Banking Studies, which is focused on developing capacity in order to promote lending to MSMEs.
4. **Analytics and systems.** JLGC has already procured and fully implemented an Enterprise Resource Planning (ERP) system; and enhanced their data warehousing, reporting and analytics generating systems. They have improved their Management Information System (MIS) mechanism, and enhanced their processes by establishing an automated application system, which their business partners can access. JLGC has acquired hardware and software to support all the growth initiatives. They are currently in the process of commencing archiving to augment the ERP system, and building an interface system with banks and other development partners.

Component II: Enhancing the Consumer Protection Mechanism (US\$ 1.2 million). This component aims at providing a supervisory and complaint resolution structure to support a reliable and strong consumer protection system, whilst promoting financial literacy in Jordan. This highlights the importance of disclosure, transparency and the recourse system in protecting the rights of financial consumers. The mission team noted that there is very little progress made under Component II. This component is divided into three sub-components:

5. **Supporting the establishment of a Consumer Protection Division at the CB.** This division has been formally established within the Banking Supervision Department, to ensure compliance with consumer protection regulations (including the 2012 Treating Customers Fairly Instructions), and to handle complaints. This will be done by agreeing on a time-bound roadmap of activities, to be prepared by an external consultant, which would highlight all the necessary steps to be taken. This would comprise the need to conduct an assessment of the legal and regulatory framework for protecting consumers of the services provided by all types of institutions regulated by the CBJ, including banks, nonbanks and payment service providers. Such assessment will cover some demand side aspects, through consumer and provider interviews, focus groups and mystery shopping, with the objective of assessing the business practices impacting transparency and fairness in service delivery, including price disclosure and complaints mechanisms. In parallel, a business plan for fully operationalizing the consumer protection division, in line with international best practices (including an assessment of the placement of the unit within CBJ's organizational structure), will be developed and implemented under the oversight of an international expert and the Head of the consumer protection division—yet to be appointed. The business plan will provide job descriptions and key activities, identify capacity building, training and resource requirements for the division, based on a clear mandate and a proposed supervisory approach to be adopted by the division. To expedite the operationalization of the consumer protection division, the WBG will provide assistance to CBJ, in close coordination with the international consultant who is about to be hired, to initiate key activities in parallel, such as the business planning for the division, the diagnostic review of the legal and regulatory framework, and the staffing of the unit.
6. **Providing capacity building to the CBJ to support the consumer protection functions.** This sub-component focuses on the capacity building of the consumer protection division based on the business plan aforementioned, including financing furniture and IT equipment (both software and hardware). More importantly, it will help CBJ to establish an appropriate on-site and off-site monitoring framework suitable to the Jordanian context, respective systems and procedures; create reporting templates (such as consumer complaints reporting) and analytical tools, as well as effective enforcement mechanisms. The capacity building activities will include internal and external trainings, exposure visits, and inter-departmental workshops with departments in charge of institutions that would be covered by the consumer protection regulatory and supervisory framework. The specific capacity building for the division's staff would include how to use quantitative and qualitative consumer research on a regular basis, how to identify financial inclusion barriers created by financial institutions (such as minimum balance amounts for opening a bank account, switching barriers), and tailored supervisory techniques such as mystery shopping and analysis of complaints data.
7. **Developing financial literacy programs** through public awareness campaigns and media programs, focusing on issues such as the legal rights of clients, understanding different financial products offered in the market, and the complaint resolution mechanism. This component will complement the efforts done by the steering and technical committees headed by the CBJ (which were established by a Ministerial Decree in May 2014), as their main mandate is to conduct a nation-wide financial literacy program in Jordan. To ensure effectiveness of the financial literacy interventions and provide a baseline for impact measurement in the future, it is advisable that a national financial literacy baseline survey is conducted as soon as possible, in line with international best practices. One financial literacy campaign has already been conducted, and CBJ finalized signing a contract with INJAZ on October 22, 2015 that will focus on the continuation of the financial literacy program within the school curricula across of Jordan, where the Ministry of Education will then adopt and carry over the implementation of the financial literacy for all grades at later stages. Specifically, this project will develop learning frameworks that support the development of a financial literacy curriculum for Grade eight.

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



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

8. The microfinance bylaw was approved by the CBJ Board on May 29, 2014, and was ratified by the Cabinet on December 14, 2014, and is effective since June 1, 2015. Based on this bylaw, the CBJ has the mandate and authority to regulate and supervise the microfinance sector. The bylaw is consistent with international good practices, and adopts some light prudential rules with more focus on consumer protection, fit and proper requirements, strong governance rules, risk management and internal controls. The bylaw also adopts a general definition of the term "Microfinance" by including other financial services besides microcredit (with the exception of deposit taking), and targeting the poor segments of the population, by catering to the unbanked and the underserved.
9. The Microfinance Unit has been formally established at CBJ, and seven staff members were hired, including the Head of the unit. The teams agreed that the unit staff will receive training on the GIRAFE rating methodology for MFIs, which is part of the qualifying criteria under the MSME line of credit. CBJ can benefit from the Egyptian Social Fund for Development (SFD) experience in adopting and applying this rating methodology by organizing a workshop for the staff of the MF Unit.
10. The project is supporting the CBJ in gathering all available data about the NBFIs that are engaged in financial services (for example, consumer lending, unregulated investment funds and factoring), as well as those that operate without any specialized regulation or supervision. This is done in order to identify the risks and issues that need to be covered, in order to further assist the CBJ in adopting a more comprehensive approach of regulating and supervising NBFIs, rather than just being limited to MFIs. This will include a comprehensive market study, technical assistance in drafting any needed regulation, and building the capacity of the staff in charge of supervising these institutions.
11. The World Bank, in close cooperation with GIZ, participated and assisted in organizing several workshops and meetings with the CBJ team, they managed to finalize the following: (i) an estimated budget for all components of the project; (ii) a work plan and time frame for each sub component; (iii) TOR for the lead consultant who will be responsible of assisting the CBJ in conducting the market study and assessment regarding NBFIs (and based on this assessment to consider moving all NBFIs at a later stage under the supervisory authority of the CBJ); (iv) prepare the microfinance criteria and main executive instructions that the CBJ will need to take on the responsibility of regulating and supervising MFIs; and (v) participate in a learning visits and study tours to Morocco in May 2015, Malaysia in August 2015, as well as Egypt to benefit and learn from the Egyptian, Malaysian and Moroccan experience in regulating and supervising microfinance. The Bank team continues to closely collaborate with GIZ, to ensure complementarity of efforts.

Risks

Overall Risk Rating

| Risk Category | Rating at Approval | Previous Rating | Current Rating |
|---------------|--------------------|-----------------|----------------|
| Overall | ● Low | -- | ● Low |

Results

Project Development Objective Indicators

- ▶ Number of microfinance loans after bringing the MFIs under the umbrella of CBJ (Number, Custom)



| | Baseline | Actual (Previous) | Actual (Current) | End Target |
|-------|-------------|-------------------|------------------|-------------|
| Value | 0.00 | 0.00 | 76932.00 | 1500.00 |
| Date | 31-Jan-2014 | 16-Jun-2015 | 10-Dec-2015 | 31-Aug-2018 |

►Number of SME loans guaranteed by JLGC (Number, Custom)

| | Baseline | Actual (Previous) | Actual (Current) | End Target |
|-------|-------------|-------------------|------------------|-------------|
| Value | 3000.00 | 3575.00 | 4105.00 | 4500.00 |
| Date | 31-Jan-2014 | 16-Jun-2015 | 10-Dec-2015 | 31-Aug-2014 |

►Number of complaints resolved to the satisfaction of the consumer by the Consumer Protection Unit at CBJ within [30] days. (Number, Custom)

| | Baseline | Actual (Previous) | Actual (Current) | End Target |
|-------|-------------|-------------------|------------------|-------------|
| Value | 0.00 | 0.00 | 0.00 | 600.00 |
| Date | 31-Jan-2014 | 16-Jun-2015 | 10-Dec-2015 | 31-Aug-2018 |

Overall Comments

Intermediate Results Indicators

►Value of guarantees issued (Amount(USD), Custom)

| | Baseline | Actual (Previous) | Actual (Current) | End Target |
|-------|-------------|-------------------|------------------|-------------|
| Value | 49000000.00 | 653000000.00 | 676000000.00 | 69000000.00 |
| Date | 31-Jan-2014 | 16-Jun-2015 | 10-Dec-2015 | 31-Aug-2018 |



►Guaranteed loans by JLGC to women-owned SMEs (Percentage, Custom)

| | Baseline | Actual (Previous) | Actual (Current) | End Target |
|-------|-------------|-------------------|------------------|-------------|
| Value | 5.00 | 7.00 | 7.00 | 11.00 |
| Date | 31-Jan-2014 | 16-Jun-2015 | 10-Dec-2015 | 31-Aug-2018 |

►Consumer Protection Unit at CBJ fully staffed and operational (Yes/No, Custom)

| | Baseline | Actual (Previous) | Actual (Current) | End Target |
|-------|-------------|-------------------|------------------|-------------|
| Value | N | N | N | Y |
| Date | 31-Jan-2014 | 16-Jun-2015 | 10-Dec-2015 | 31-Aug-2018 |

►Completion of the necessary training programs for the staff in the Consumer Protection Unit (Number, Custom)

| | Baseline | Actual (Previous) | Actual (Current) | End Target |
|-------|-------------|-------------------|------------------|-------------|
| Value | 0.00 | 0.00 | 0.00 | 5.00 |
| Date | 31-Jan-2014 | 16-Jun-2015 | 10-Dec-2015 | 31-Aug-2018 |

►Number of public awareness campaigns and financial literacy programs (Number, Custom)

| | Baseline | Actual (Previous) | Actual (Current) | End Target |
|-------|-------------|-------------------|------------------|-------------|
| Value | 0.00 | 0.00 | 1.00 | 3.00 |
| Date | 31-Jan-2014 | 16-Jun-2015 | 10-Dec-2015 | 31-Aug-2018 |

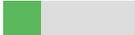


▶Microfinance Division at CBJ fully staffed and operational (Yes/No, Custom)

| | Baseline | Actual (Previous) | Actual (Current) | End Target |
|-------|-------------|-------------------|------------------|-------------|
| Value | N | N | Y | Y |
| Date | 31-Jan-2014 | 16-Jun-2015 | 10-Dec-2015 | 31-Aug-2018 |

Overall Comments

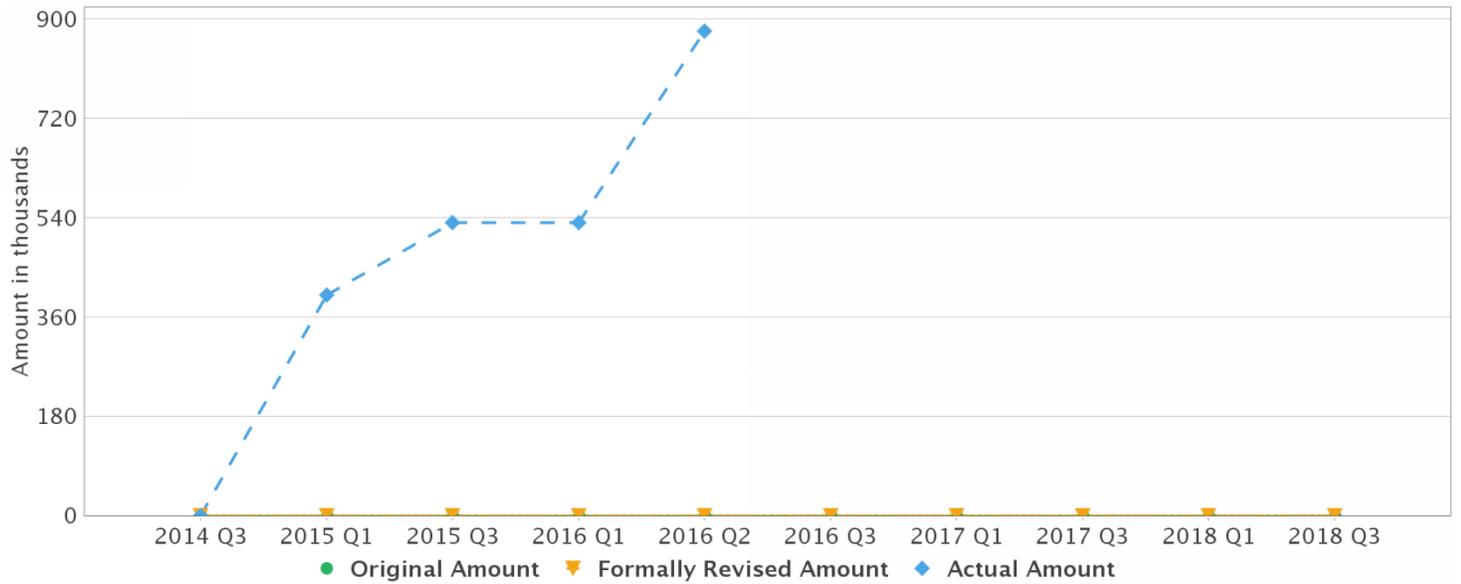
Data on Financial Performance**Disbursements (by loan)**

| Project | Loan/Credit/TF | Status | Currency | Original | Revised | Cancelled | Disbursed | Undisbursed | Disbursed |
|---------|----------------|-----------|----------|----------|---------|-----------|-----------|-------------|---|
| P147875 | TF-16588 | Effective | USD | 3.00 | 3.00 | 0.00 | 0.88 | 2.12 |  29% |

Key Dates (by loan)

| Project | Loan/Credit/TF | Status | Approval Date | Signing Date | Effectiveness Date | Orig. Closing Date | Rev. Closing Date |
|---------|----------------|-----------|---------------|--------------|--------------------|--------------------|-------------------|
| P147875 | TF-16588 | Effective | 09-Feb-2014 | 09-Feb-2014 | 04-Mar-2014 | 31-Aug-2018 | 31-Aug-2018 |

Cumulative Disbursements



Restructuring History

There has been no restructuring to date.

Related Project(s)

There are no related projects.