



Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 18-Feb-2021 | Report No: PIDA30708



BASIC INFORMATION

A. Basic Project Data

Country Jordan	Project ID P175420	Project Name Jordan COVID-19 Private Sector Resilience and Recovery Project	Parent Project ID (if any)
Region MIDDLE EAST AND NORTH AFRICA	Estimated Appraisal Date 24-Feb-2021	Estimated Board Date 29-Mar-2021	Practice Area (Lead) Finance, Competitiveness and Innovation
Financing Instrument Investment Project Financing	Borrower(s) Ministry of Planning and International Cooperation (MoPIC)	Implementing Agency Ministry of Planning and International Cooperation (MoPIC)	

Proposed Development Objective(s)

Support MSMEs in adapting to the immediate impacts of COVID-19 and improve access to finance and business support services for new and existing MSMEs

Components

De-risk debt financing to MSMEs
Support SME resilience and growth
Project management and institutional development

The processing of this project is applying the policy requirements exceptions for situations of urgent need of assistance or capacity constraints that are outlined in OP 10.00, paragraph 12.
Yes

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	115.00
Total Financing	115.00
of which IBRD/IDA	115.00
Financing Gap	0.00

DETAILS



World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	115.00
Environmental and Social Risk Classification	
Moderate	
Decision	
The review did authorize the team to appraise and negotiate	

B. Introduction and Context

Country Context

1. **Disrupting billions of lives and livelihoods, the COVID-19 pandemic threatens decades of hard-won development gains and demands an urgent response¹.** Mitigating the health implications of the pandemic is the foremost priority but ensuring that firms weather the crisis and regain their vitality will be key to maintaining families’ livelihoods today and resuming economic growth afterward. In response to the COVID-19 shock, governments around the world have launched an extensive array of measures to support firms and jobs, many of them targeted specifically to small and medium-sized enterprises (SMEs)². This is of crucial importance for Jordan as well, to ensure sustainable recovery and resilience of its private sector – micro, small and medium-sized enterprises (MSMEs) are major contributors to the Jordanian economy, to its competitiveness, and employment potential.

2. **The shock of COVID-19 exacerbated the pre-existing issues in the MENA region.** The region continues to suffer from challenges related to longstanding security strains and the effects of large-scale refugee population movements, as well as large structural impediments to growth. Countries in MENA have been disproportionately affected by the crisis, with oil producers contracting the most. Jordan’s economy is relatively small compared to regional peers that have more natural resources or have developed an export-oriented manufacturing base, a lack of which makes it crucial for Jordan to tap the full potential of its private sector and ensure a high labor force participation for a sustainable long-term development. Despite its high exposure to exogenous shocks (regional conflicts, shifts in geopolitical relations, global financial crisis, etc.), Jordan has been able to preserve stability in the pre-COVID period, drawing from its unique geopolitical positioning, nuanced political compact and resilience.

3. **Jordan has done relatively well in managing the first and second phases of the pandemic. However, like for other countries, the pandemic will have a significant impact on the economy, livelihoods and Jordan’s private sector overall, including MSMEs.** Targeted lockdowns and other measures have been re-instituted after a recent sharp increase in COVID-19 cases. Jordan took rigorous health measures to curb the spread of Covid-19, in both the first and second phases. It employed border closures, social distancing, lockdowns

¹ World Bank Group Covid-19 Response Approach Paper, June 2020

² Keeping the lights on: Supporting firms and preserving jobs from crisis through recovery, Caroline Freund and Alfonso Garcia Mora, April 30, 2020



(including school closures), testing, and increased accessibility to medical supplies. As of February 14, 2021, Jordan had 344,803 cumulative confirmed cases of COVID-19, including 4,444 deaths.

4. **A first set of measures and incentives introduced in March 2020 by the Government of Jordan (GOJ) was to address immediate liquidity and cost of financing concerns for various sectors/businesses, and measures to protect vulnerable households.** The Government also implemented a host of measures to keep the lights on at enterprises in a bid to maintain supply lines and preserve jobs. These included delayed tax payments, allowed the partial payment of salaries, launched a soft loan program for MSMEs, and deferred payment of interest for businesses. Several additional programs were launched by the government to support various sectors of the economy including tourism, agriculture, exports, etc. Jordan has successfully tapped capital markets, agreed on an Extended Funding Facility (EFF) program with IMF, increased DFI financing to cover the deficit, and made steps to maintain financial stability. However, ongoing fiscal consolidation is limiting the room for fiscal stimulus. Jordan’s public debt at the end of June 2020 stood at almost 110 percent of forecasted GDP compared to 97.4 percent at the end of 2019. Also, despite stabilizing debt levels over the last few years before the COVID-19 pandemic, interest payments as a share of domestic revenues and grants have increased from an average 7.5 percent during 2002-11 to 12.6 percent during 2012-19 (Chart 2). The buffers were exhausted heading into the crisis, which presents a real challenge in the face of increasing unemployment, firm closures, and adversely affected key growth drivers of Jordanian economy such as service sector, including tourism³ and other sectors.

Chart 1. Daily new cases of COVID-19 per million people (7-day rolling averages)

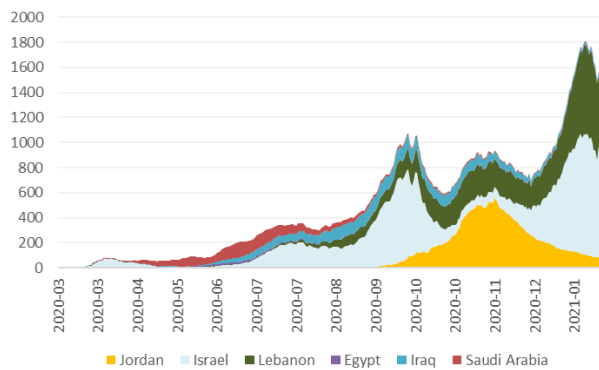
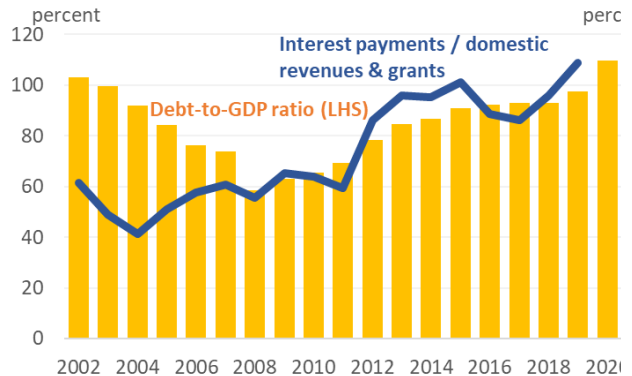


Chart 2. Jordan Debt-to-GDP ratio and debt interest payments



Source: Our World in Data (Chart 1); Ministry of Finance, Department of Statistics and WB staff estimates (Chart 2).

5. **Real GDP for Jordan contracted by 2.2 percent in Q3-2020 year-on-year** (Chart 3). Overall GDP in the MENA region is forecasted to shrink by 4.2 percent in 2020. Jordanian services output (almost 60 percent share in the economy) dropped markedly during Q2-2020, providing the largest downward contribution to GDP growth. The disruptions to this key growth driver of Jordan’s economy are expected to lead to a deterioration of Jordan’s productivity, with potentially persistent impact⁴. Jordan’s real GDP growth in 2020

³ According to the USAID survey of 751 tourism establishments (August 2020) in Jordan, 34 percent believe they are no longer capable of withstanding current financial burdens, 61 percent were not confident that their business will survive the crisis, and more than 50 percent believe the tourism sector will need more than a year to recover and return to where it was before COVID-19.

⁴ Also, since the productivity of an average firm in services sector in Jordan is much higher than the productivity of an average firm in



is projected to contract by 3.5 percent, followed by a timid 1.8 percent recovery in 2021 as domestic demand is anticipated to remain weak given ongoing pandemic resurgence as well as the fiscal consolidation effort under the IMF program. The balance of risks is strongly tilted towards the downside. Nonetheless, the pandemic also provides opportunities to emerging countries like Jordan to capture their untapped export potential (such as in the pharma industry, agriculture sector, etc.). This is important in the context of achieving long term competitiveness and sustainability for the country’s external accounts.

Chart 3. Real GDP growth and labor force growth in Jordan

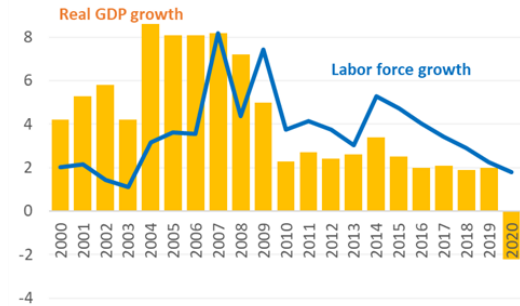
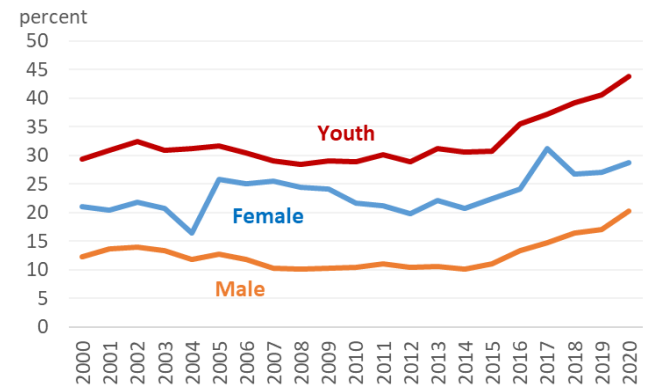


Chart 4. Unemployment rate in Jordan



Source: Department of Statistics, ILO estimates (only for youth unemployment till 2013).

6. **Jordan’s unemployment rate hiked up to 23.9 percent in Q3-2020, 4.8 percent higher than Q3-2019, with youth, particularly the female youth, disproportionately affected by the crisis.** The youth workforce appeared particularly vulnerable to the COVID-19 shock as unemployment rate for youth jumped to 46.3 percent in Q3-2020. This hike was predominantly driven by a whopping increase in the unemployment rate of young women, exacerbating the already large gender gap⁵. According to the latest estimates of 2018, 15.7 percent of the population in Jordan is considered poor⁶, and the poverty rate is projected to have increased by nearly 40 percentage points in the earliest stages of the crisis.⁷

7. **The unprecedented economic shock of COVID-19 has exacerbated existing structural weaknesses in Jordan’s economy and unresolved social challenges and put pressure on the country’s fragile economic and financial stance. Symptoms of the structural issues in Jordan’s economy include:**

- (a) *Slow economic growth:* even before the pandemic, Jordan had been facing a sluggish economic growth with an average GDP growth at around 2 percent over the last four years, compared to more than 6 percent in 2000-2009. The inability to sustain higher growth has partly been linked to the inability of Jordan’s factor markets in directing resources to high productivity traded sectors.
- (b) *Untapped potential of Jordan’s highly skilled labor force:* Jordan has a chronic problem of high unemployment. Looking from a longer-term perspective, the average unemployment rate in Jordan

the manufacturing sector. This comparative advantage can be expanded with relative ease by redeploying the capacities that the country already has. Therefore, by actively promoting services sector, Jordan may develop more sustainable growth that is consistent with its comparative advantages.

⁵ Jordan ranks 138 among 153 countries on the Global Gender Gap index (http://www3.weforum.org/docs/WEF_GGGR_2020.pdf)

⁶ The poverty headcount ratio at national poverty lines.

⁷ UNHCR and World Bank (2020) *Compounding Misfortunes*.



in 2009-2019 stood at 14.5 percent, with female unemployment (23.8 percent) almost twice as high as male (12.3 percent)⁸. During the same period, average youth unemployment rate was more than 30 percent. Economic growth in Jordan has been too slow to absorb an increasing labor force (Charts 3-4).

(c) *Productivity challenges*: labor productivity growth has been declining while total factor productivity growth was negative since 2010, negatively contributing to real GDP growth.

8. A broader reform agenda as well as improved reform implementation is necessary to address the long-standing challenges and to ensure sustainable recovery and resilience of the Jordanian private sector, households, and economy overall. Many of these necessary reforms are anchored in the Five-Year Reform Matrix that the Jordanian Government developed in collaboration with the World Bank Group and other development partners. The Matrix lays a foundation for sustainable, inclusive growth. These reforms aim to make Jordan's economy more efficient and reorient it toward export-led growth by creating a better business and investment environment. For example, during the pandemic, a stronger focus on reforms to expand female participation in the labor force, investment climate reforms, and reforms to strengthen the business environment⁹ and expand digitization would promote a faster recovery. Investment climate reforms, reforms to strengthen the business environment and expand digitization are among the Matrix's priorities. To reach tangible results in the context of Five-Year Reform Matrix, there's a need to deepen capacity and focus on implementation.

9. The COVID-19 pandemic has exacerbated existing challenges faced by SMEs in Jordan and put them in a survival mode to retain their businesses. As in many other countries, the impact of COVID-19 shock on businesses in Jordan is occurring through four distinct channels: (i) a decline in demand; (ii) reduced supply; (iii) tightening credit conditions; and (iv) a fall in investment (Chart 5). According to the World Bank mini-survey in Jordan conducted in April 2020 and a larger regional study from August 2020 on the short-term impact of COVID-19 pandemic on businesses¹⁰, Jordan is among the countries with a largest expected drop in sales averaging at 60 percent while 54 percent of businesses are expected to fall into arrears. Therefore, prudent measures to protect the SMEs and help them adjust to the "new normal" during the crisis are of great importance for Jordan's sustainable growth. The activities and financing under the proposed project are designed to help build the path for sustainable recovery and resilience of Jordanian private sector.

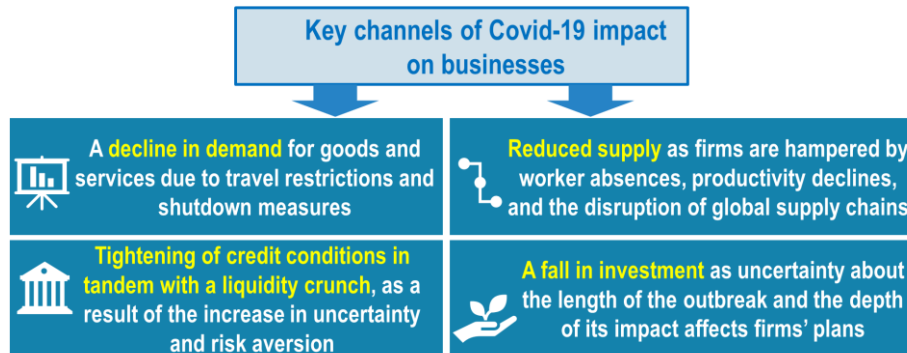
⁸ Moreover, Jordanian female labor force participation remains one of the lowest in the region, almost 5.6 percent below the MENA average in 2019.

⁹ Jordan ranked 75 out of 190 economies in the Doing Business (DB) report 2020, improving from position (104th) in 2019. Nonetheless, the DB 2020 indicates an uneven performance for Jordan: good performance for Getting Credit (4th), Paying Taxes (62nd), getting electricity (69th) but poorer performance across the other indicators: Enforcing Contracts (110th), Resolving Insolvency (112th), Starting a Business (120th), and Dealing with Construction Permits (138th).

¹⁰ In Jordan, 535 firms were questioned for this survey, with around 69 percent of them being small or medium-sized enterprises.



Chart 5. Four main channels of Covid-19 impact on businesses



Source: Keeping the lights on: Supporting firms and preserving jobs from crisis through recovery, Caroline Freund and Alfonso Garcia Mora, April 30, 2020.

10. Jordan, like other countries in the MENA region, will be experiencing the effects of climate change in the coming decades¹¹. An increased likelihood of extreme climatic events will have a negative impact on citizens' lives and economy. Response to COVID-19 crisis will be used as "build back better" tool, with intent to both recover from economic shock caused by COVID-19, and build resilience of businesses to anticipated environmental hazards, including climate-related issues. This can be achieved through support of viable businesses, improved efficiency of industrial processes, water and energy use efficiency, and waste minimization. ICT system could be effectively integrated with disaster prevention and management, early warning and response, and will increase country resilience to climate change. Support for MSMEs will allow business owners and their employees to maintain financial security, accumulate resources, and be prepared to withstand shocks, including those related to climate change.

Sectoral and Institutional Context

11. MSMEs¹² play a significant role in the Jordanian economy. They account for 50 percent of private sector contribution to GDP of the private sector, provide 52 percent of private sector employment, and form 98 percent of the corporate sector in Jordan¹³. Overall, less than a fourth of firms have women listed as owners, only 8 percent have a majority of female participation in ownership and even fewer firms (3 percent) have a woman as the top manager. Smaller and medium firms tend to be led by women to a greater extent than larger firms.¹⁴

¹¹ The mean annual temperature is forecasted to increase by 2.41°C before 2060. Jordan Climate Data, Projections. The World Bank Group Climate Change Knowledge Portal - <https://climateknowledgeportal.worldbank.org/country/jordan/climate-data-projections> (accessed on 12.8.20). Precipitation will decline in the northern and central part of the country and may somewhat increase in the southern part. Precipitation pattern may change, resulting in increased occurrence of heavy rains leading to river floods and landslides. Population living in areas prone to such hazards will be vulnerable to climate change. Vulnerable groups are likely to be particularly susceptible to these risks. Floods and landslides damage infrastructure, commercial and residential properties, and cause losses to businesses.

¹² Jordanian Cabinet of Ministers endorsed a national definition for SMEs in October 2019.

¹³ Jordan Loan Guarantee Corporation (JLGC), June 2019

¹⁴ The 2019 Enterprise Survey indicates that 3.8 percent of small firms are led by a female top manager; 2.9 percent of medium sized firms and 0.1 percent of large firms are women led.



12. **Beside such structural issues as chronic problem of high unemployment and limited productivity gains that were mentioned in the Country context section, other key structural challenges facing MSMEs in Jordan can be listed as follows:**

- (a) **SMEs in Jordan perceive government policies and regulations as cumbersome** (25 percent of surveyed SMEs), mainly when it came to clarity of procedures and criteria, including capital, partner(s), and work permit requirements. Competition is rated as a second challenge (11 percent), defined by the difficulty of new products entering the market to compete. High operating expenses appeared equally challenging (11 percent), possibly linked to tariffs on electricity, water, and shipping costs. Lack of customers/decreasing demand (9 percent) came next, with SMEs facing challenges in finding new clients and accessing new markets.¹⁵
- (b) **Limited access to finance due to high levels of volatility and risk aversion of financial intermediaries' market.** According to a recent World Bank survey of 564 establishments in Jordan (August 2020) – 92.5 percent of firms experienced decreased liquidity or cash flow availability (98 percent for small businesses) and 31 percent of them have overdue obligations to financial institutions.
- (c) **The density of new business registration is significantly lower in Jordan**, compared to regional and global averages. The number of newly registered corporations per 1,000 working-age people (those ages 15–64) in Jordan was 3,289 limited liability corporations (LLCs) in 2018 or a new business density of 0.53. This is one third of the MENA average of 1.58 and significantly below the OECD average of 6.61.¹⁶
- (d) **Average firm performance was deteriorating in Jordan, even before the pandemic.** In 2019, firms witnessed a negative growth in annual sales (-6.1 percent), negative employment growth (-1.4 percent), and negative real annual labor productivity growth (-7.3 percent). Firms have utilized only 59.3 percent of their capacity, compared to 68.7 percent in MENA, and only 14.1 percent of them invested in fixed assets compared to 30.1 percent in MENA.¹⁷
- (e) **Limited business management skills and entrepreneurship knowledge across MSMEs.** Current MSME support programs are reaching out to wide subsets of MSME, to help them build their managerial capabilities. Lack of such skills constraints MSMEs growth and the ability to withstand economic shocks.
- (f) **Concentration of exports in a small number of products, markets, and exporters.**
- (g) **The public institutional support for MSMEs in Jordan has not been efficient in addressing key issues facing MSMEs through various stages or addressing constraints in the business environment.** The difficult political environment in the country, lack of coordination among public MSME support programs, and the constantly changing leadership at JEDCO, the SME agency, were key impediments facing the efficiency of public institutions. Political and economic stability linked to the Syria crisis has shifted attention and resources from existing SME programs.¹⁸

13. **A recent World Bank survey of 564 establishments in Jordan (August 2020) showed that 5.1 percent**

¹⁵ Building Markets Survey covering 309 firms, UNHCR, May 2019

¹⁶ World Bank Doing Business database (Data extracted in August 2020)

¹⁷ Enterprise Survey, World Bank, November 2019

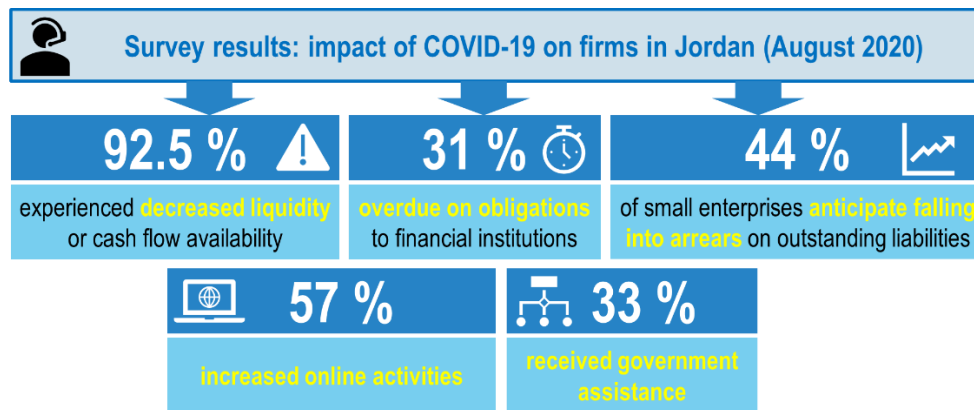
¹⁸ SME Policy Index, the Mediterranean Middle East and North Africa, OECD 2018



of surveyed establishments have permanently closed since the Covid-19 pandemic was declared. Only 2.5 percent of surveyed firms have adjusted their production lines or services to adapt to the changing business environment. The overall capacity utilization of firms was estimated at 49.5 percent, which is 10 percent below the October 2019 estimate. On average, 89 percent of firms experienced decreases in monthly sales compared to last year. The survey also showed that women are more likely to be losing their full-time jobs than men. The disproportionate impact of Covid-19 on service sector may hit women particularly hard, as 86 percent of the female employment is in the service sector (compared to 70 percent of men).

14. The survey also confirmed that 92.5 percent of firms experienced decreased liquidity or cash flow availability (98 percent for small businesses) and 31 percent of them have overdue obligations to financial institutions (Chart 6). For financing resources, 21 percent of surveyed firms are using commercial loans as the main source, 3.4 percent using equity financing, and 0.4 percent using NBFi products¹⁹. On SMEs’ financial commitments, 44 percent of small enterprises anticipate falling into arrears on outstanding liabilities, compared to 34 percent of medium enterprises. On the positive side, 57 percent of firms increased online activities and 33 percent applied remote work modality for workers.

Chart 6. Key results of the survey on Covid-19 impact on firms in Jordan



15. On effectiveness of government support, 33 percent received government assistance and 19 percent received access to new credit, provided as part of the government’s response program. However, the line of credit targeted mainly medium enterprises and existing SME clients of commercial banks, effective support for microenterprises and individual entrepreneurs could be provided through MFI. The pandemic has created a dire situation for firm survival, liquidity and growth potential, where firms expect at least 8-10 months to return to normal levels in terms of sales and workforce.

16. The Government of Jordan (GOJ) has prioritized SMEs and entrepreneurship as a critical pathway to economic growth. This is aligned with Jordan’s priorities to grow exports, create new job opportunities, and increase the competitiveness and efficiencies of existing SMEs, as well as creating new enterprises. In the Letter of Designation from H.M. King Abdullah II to Prime Minister Bisher Kasawneh, H.M. King Abdullah II tasked the government to support SMEs, which are the cornerstone of the national economy. The Letter tasked the government to design programs to empower SMEs, due to their key impact on economic growth

¹⁹ The survey covered not only micro enterprises but also SMEs, hence the low share NBFi financing, because MFIs usually focus on individual entrepreneurs rather than firms.



and employment. This would require providing an ecosystem that enables entrepreneurs to launch and maintain business.²⁰

17. During the Covid-19 outbreak, the GOJ has taken key measures to support the public and private sectors, which have been well perceived by the population²¹:

- (a) The Central Bank of Jordan (CBJ) has launched in April 2020 a JOD500 million credit line facility for SMEs through commercial banks, with an expansion of the Jordan Loan Guarantee Corporation (JLGC) program to provide an 85 percent guarantee on loans. As of December 2020, the facility has approved more than 5070 loans to SMEs at a total volume of JOD411.2 million to cover all types of operational expenses and staff salaries. The facility, however, did not cover microenterprises that are usually serviced by micro finance institutions (MFIs). While microenterprises face similar business challenges as SMEs, JLGC can only provide 70 percent coverage on their loans, due to the limited capital of the corporation;
- (b) CBJ simplified Know Your Customer (KYC) requirements²² for low-value accounts (up to JOD5,000), which enabled individuals to open e-wallets quickly for SMEs and increased the number of e-wallet subscribers from 400,000 to more than 1 million between March and September 2020;
- (c) CBJ introduced a no-charge policy for mobile money transactions, with minimal fees on cash-out through agents and ATM machines;
- (d) CBJ deferred loan payments to MFIs, which typically lend to the informal sector;
- (e) The GOJ postponed collecting sales tax from all local sectors and companies in the supply, health and medical sectors until they sell their goods and provided an installment option for affected businesses to pay electricity fees;
- (f) The GOJ also allowed private companies to exclude their employees from old-age insurance for three months;
- (g) As part of the government response, Jordan Enterprise Development Corporation (JEDCO), which is the key SME agency in Jordan, launched matching-grants programs to support SMEs to repurpose their production lines and digitize their operations; and
- (h) The Innovative Startup and SMEs Fund (ISSF), which is a GOJ investment fund, has launched a quasi-equity program to provide convertible notes to viable startups for covering their working capital and fixed costs.

18. To deepen the COVID crisis response and recovery, the GOJ is developing an Economic Recovery Plan (ERP). It is intended to address socioeconomic challenges facing Jordan and plan for better results related to alleviating poverty, reducing unemployment, and increasing growth. The ERP will support micro-level recommendations to strengthen resilience and growth through vertical interventions. These recommendations will support private sector enterprises, mainly MSMEs, in providing immediate crisis response to retain existing businesses and lay the foundation for a sustainable recovery.

²⁰ Letter of Designation to Prime Minister Bisher Kasawneh, October 7, 2020, link: <https://kingabdullah.io/en/letters/bisher-khasawneh>

²¹ Most Jordanians (73 percent) considered GOJ measures appropriate to alleviate the impact of Covid-19 outbreak. Source: Center for Strategic Study, March 2020

²² Jordan allowed individuals to open an e-wallet using a simple online form (as long as an ID is present) on the condition that KYC can be done after the crisis subsidies.



19. Wider sector obstacles remain to be addressed to ensure a sustainable recovery and resilience of the Jordanian private sector, and MSMEs in particular. To support a resilient recovery of MSMEs, it will be important for the GOJ to: (i) lay the foundations for a stronger support ecosystem across key MSME subsets that includes specific measures for female owned and led firms, as well as firms led by other vulnerable groups; (ii) promote reallocation of resources to more efficient companies; and (iii) avoid measures that risk propping up unviable firms or declining industries. Support should facilitate the transition to more sustainable production processes with higher market growth potential. The GOJ should also aim to support sectoral reforms that are key to developing sizeable and scalable projects for a resilient and sustainable recovery. These actions align with the Letter of Designation from H.M. King Abdullah, the Government’s ERP, and the Five-Year Reform Matrix.

20. The combination of technical capacity, private sector knowledge, targeted financing instruments places the WBG in a strong position to propose solutions adapted to challenges Jordan faces today. The solutions under the proposed project will aim to alleviate the impact of the pandemic on MSMEs, addressing the key challenges they face by building on the three key pillars:

- (a) increased access to finance;
- (b) development of SMEs’ capability and realizing specific market opportunities; and
- (c) strengthening of SME development and export promotion institutions.

C. Proposed Development Objective(s)

Development Objective

- 21. The proposed Project aims to alleviate the impact of the pandemic on MSMEs and address key challenges they face in the ecosystem.** The Project will focus on supporting the resilience of MSMEs during the pandemic and facilitating their post COVID-19 recovery to retain and develop their capabilities and market position, through increasing access to finance, technology and markets, and supporting the development of the MSME ecosystem in Jordan. Immediate response measures will include guaranteeing access to finance through MFIs to support the lower subsets of MSMEs and providing grants to SMEs through component 2.1. A gender focus to ensure women as business leaders/owners, as well as employees, will be integrated, as well as a focus on the needs of vulnerable groups²³.
- 22. The project Development Objective (PDO): “Support MSMEs²⁴ in adapting to the immediate impacts of COVID-19 and improve access to finance and business support services for new and existing MSMEs”.**²⁵ This will be achieved through improved access to finance, firm capability development, and institutional support for future growth.

²³ Findings from several studies and reports under the Mashreq Gender Facility workplan will be incorporated. Namely: the supply and demand landscape analysis of childcare services, socioeconomic impact of microlending on women microentrepreneurs, transformation plan towards digital payments of salaries across all sectors to ensure wage protection, and Expansion of Satellite (remote) Units Modalities to Sectors that Employ Women.

²⁴ Jordanian Cabinet of Ministers endorsed a national definition for SMEs in October 2019

²⁵ In the context of this Project, ‘recovery’ of MSMEs (or private sector in general) mainly refers to the growth in the post-COVID period, while ‘resilience’ refers to survival of MSMEs.



Key Results

- (a) Number of MSMEs receiving portfolio guaranteed loans by JLGC through financial intermediaries (disaggregated by female/male ownership);
- (b) Total loan amounts disbursed to MSMEs, guaranteed by JLGC (amount in US\$; disaggregated by female/male ownership);
- (c) Amount of additional annual revenues generated by supported SMEs (amount in US\$); and
- (d) Number of supported SMEs that increased their exports (number).

D. Project Description

23. The Project will comprise the three components critical to MSME development:

- (a) De-risk debt financing to MSMEs;
- (b) Support MSME resilience and growth; and
- (c) Project management and institutional development.

COMPONENT 1: DE-RISK DEBT FINANCING TO MSMEs (US\$50 MILLION)

24. **The objective of this component is to ease access to finance for MSMEs, in particular, micro and small enterprises and individual entrepreneurs in becoming more resilient against Covid-19 shocks and protect vulnerable households – including female led single households – who rely on this sector.** This component will support capitalization²⁶ of JLGC for the provision of loan guarantees over two phases:

- (a) Phase 1: to expand a recently launched portfolio guarantee program for SMEs to include micro-enterprise category by issuing portfolio guarantees to microfinance with an increased guarantee coverage from 70 percent to 85 percent for a period of five years. The guarantees will support MFIs under a USD 30M emergency liquidity line-of-credit from CBJ that is expected to launch in Q3 2021 for COVID-19 recovery. Thus, the financing will reach the most affected microenterprises²⁷ during the recovery period. The CBJ line of credit includes both short- and long-term maturities. The liquidity facility is currently being set by CBJ tapping on funding from the Arab Fund for Economic and Social Development (AFESD) in the form of a line of credit at concessional terms that will be channeled from CBJ to MFIs through commercial banks. This will ensure that MFIs have sufficient liquidity at low cost in addition to wholesale financing from banks where at the end of 2019, local commercial banks had JOD 88.6 million in outstanding loans to four of the largest MFIs. These accounted for 75 percent of the sector compared to JOD26.2 million in 2012.
- (b) Phase 2: to integrate the current SME portfolio guarantees (through banks) and the microfinance micro-enterprise portfolio guarantees under one MSME portfolio guarantee product that will be self-sustaining at a steady state by JLGC over the medium-term. A single, integrated portfolio product will broaden

²⁶ Main shareholders (CBJ and licensed operating banks in Jordan) have increased the paid-up capital of JLGC from JD10 million to JD29 million in 2016. Furthermore, the CBJ, licensed banks and the Arab Fund for Social and Economic Development have participated in creating a special fund for guaranteeing the loans extended to startups totaling JD 82.5 million. The funding was lent to JLGC for ten years at subsidized rate (0.5-2.0 percent). JLGC invests the money in Government Bonds and accumulates the net interest income in special provisional Fund to cover expected losses of the loans extended under the program. Currently, the Fund has an outstanding balance of JD 9.4 million. Similar arrangements were introduced by the CBJ to support other programs including the export credit insurance, the industrial and services sectors loan guarantee program and the covid-19 facility.

²⁷ The target groups include: Micro enterprises whose total assets or annual sales/revenues are less than (100,000) Jordanian dinars and the number of its employees is less than (5) workers. The program also includes home based micro-projects and all professionals and craftsmen and self-employed individuals.



overall guarantee outreach including to microenterprises.

25. The portfolio guarantee delivery approach under phase 1 will assist JLGC to service more MFIs, which in turn, will extend credit to more microenterprises²⁸, during the COVID-recovery period²⁹. JLGC currently works with 6 microfinance companies, issuing guarantees on an individual guarantee basis. The volume of micro-lending guaranteed by JLGC stands as of November 30, 2020 at JOD 2.9 million covering 323 microbusinesses with an average guaranteed balance of JOD 9,013 (average loan size is JOD 26,877). The current coverage ratio of the microfinance guarantee is 70 percent with a premium rate ranging from 1.5-2.0 percent. An increased guarantee ratio and reduced premium rates are common requests that JLGC receives from the MFIs. Especially in the context of the COVID-19 pandemic, the riskiness of the underlying portfolio is clearly higher than in normal times, hence higher than usual coverage ratios can increase MFIs' willingness to participate in the scheme, especially for highly disadvantaged borrowers such as individual entrepreneurs. Moreover, the capital injection will encourage more lending by financial institutions³⁰.

26. Migrating microfinance guarantees to a portfolio approach will enable JLGC to concurrently begin to guarantee the loans to MFIs from the CBJ. The eligibility criteria for MFIs under the CBJ line-of-credit have been jointly established by CBJ and JLGC. JLGC is developing terms and conditions for the guarantee agreements with eligible MFIs, updating their operational and risk management processes to include guarantees to MFIs, and undertaking financial projections on total issuances, claims and recoveries. The project funding will be invested, and its earnings will comprise the provisional fund for claims. [Fee income for the guarantees will go toward covering JLGC operational expenses] during this period. The CBJ loans will be committed over 7-8 years from launch, and the overall line-of-credit will expire in 15 years. The portfolio approach allows JLGC to reach more MFIs and thus MFI borrowers, and will benefit from economies of scale, and improved IT systems (including interface with participating MIFs which will be developed under this operation) as well.

27. Over the medium-term, the integrated portfolio guarantee program will enable JLGC to build off the gains under the COVID-recovery funding to broaden outreach and maintain financial sustainability. JLGC

²⁸ Funds will be used for investment and working capital with more focus in the time of the COVID-19 crisis on working capital. Whereas, the former is essential for job creation and economic growth, the latter are important for sustaining jobs in firms which could become insolvent due to insufficient short-term credit. Given that the lack of liquidity to pay salaries, rents and other current liabilities is the immediate consequence of the current shock, JLGC would target working capital finance. Furthermore, restrictions will be put on the size and terms of the loan in addition to, a ceiling should always be set on the total exposure to any single lender. While a JLGC cannot directly influence the payback profile of a loan, which is a decision of the MFI, guarantees would be calibrated to accommodate the cash flow distribution of firms hit by the COVID-19 shock, where firms with little or no income will not be able to begin payments for several months.

²⁹ Nine institutions currently undertake microfinance activities in Jordan under the umbrella of CBJ, with a total of more than 200 branches across the country. The MFIs were able to serve around 4 percent of the Kingdom's population (10.6 million) with 67 percent of the industry outreach was focused outside Amman. MFIs managed a total loan portfolio of JOD273 million in Q2 2020, and served a total of 466,394 active borrowers, with about 435,368 active loans. From all clients, 68 percent were female borrowers. The percentage of market share for MFIs was equal to 24.1 percent of non-banking financial institutions in 2017. According to the IFC MSME Finance Gap Report from 2017 with updated data as of October 2018, there is an unmet microfinance demand of US\$ 697 million among formal microenterprises.

³⁰ Based on 12.5 percent expected default and 25 percent Worst Case Default Rate (WCDR), a leverage multiplier of 4 times could be applied. JOD1.25 million could unlock about JOD5 million of additional lending for the second year of the program, and the outstanding balance of guaranteed amount could be increased by additional JOD2.5 million every year following the second year, assuming an average loan maturity of 24 million and the same default rate in the medium to long term.



will continue the comprehensive MSME portfolio guarantee when the two lines-of-credit for SMEs³¹ and microfinance, respectively, expire. As such, JLGC will use the investment earnings from the World Bank project amount to fund claims and will use fee income to absorb operational costs. To sustain the portfolio product beyond support of the lines-of-credit, JLGC will assess performance under the portfolio, including the applicable bank and MFI eligibility criteria, target areas of unmet credit demand, coverage ratio, multiplier, and operational and risk management. Once the program will enter the period where no more loans under the CBJ line-of-credit are added under the higher 85 percent program coverage level, the portfolio product will shift to its steady-state coverage levels. It is expected that the period between the first and second disbursement will cover loans under the CBJ line-of-credit, and that other credit coverage will begin after the second disbursement conditions are met. For the entire 15-year period will enable JLGC guarantees to cover 24,842 MFI loans to their borrowers (that are primarily Micro of home-based enterprises), and 23,535 bank loans to their SME borrowers, with the relative proportions of CBJ/non-CBJ loans decreasing over time. The same JLGC projections and assumptions indicate that during the first 5-year period (2021Q3-2026Q2) JLGC will be able to extend 24,842 guarantees to MFIs and 23,535 guarantees to Banks for loans extended to their SME borrowers.

28. Capitalization of the JLGC will take place in two disbursements. The first disbursement of US\$25 million equivalent will take place upon the adoption of the following commitments, in form and substance satisfactory to the World Bank: (a) JLGC adopts eligibility criteria for MFIs to participate in the microfinance Portfolio Guarantee Program, as agreed to with CBJ; (b) JLGC adopts operational guidelines for the microfinance Portfolio Guarantee Program, including a business model, risk management policy, investment policy to guide new capitalization; and a revised ESMS consistent with the requirements of the ESCP; and (c) JLGC completes a projection of the annual numbers of guarantee claims over the period of the CBJ line of credit under best and worst scenarios for the microfinance Portfolio Guarantee Program.

29. The second disbursement of US\$25 million will take place upon the following: (a) JLGC completes an assessment of the portfolio guarantee performance, including preliminary outreach across MSME categories; (b) JLGC adopts updated policies on coverage levels, eligibility criteria, pricing and claims management for the MSMEs Portfolio Guarantee Program, in form and substance satisfactory to the World Bank; (c) JLGC establishes accreditation and due diligence criteria for MFIs and Banks to participate in the MSMEs Portfolio Guarantee Program; and (d) JLGC adopts procedures for proportional target allocation across medium, small and micro-enterprise categories of borrowers under the MSME Portfolio Guarantee Program. This capital will be deposited into a sub-bank account, in accordance with the signed subsidiary agreement between MOPIC and the JLGC and the procedures established in the POM. The disbursements will build up a special provisional fund that will be created at JLGC from the reinvestment of the US\$50 million. The reinvestment return is expected to reach JOD1.6 million annually, according to JLGC estimates.

30. During the COVID recovery period, capitalization of the JLGC is necessary to provide confidence to the MFIs, where the guarantees will provide liquidity to manage operations. Upon completion of the project, it is expected that the capital deposited in the JLGC account will continue to be used by JLGC to provide credit guarantees to facilitate access to finance for MSMEs. The fund is designed to be financially sustainable over

³¹The SMEs Line of Credit is a new COVID-19 facility for SMEs by CBJ that is guaranteed by JLGC with 85 percent coverage rate which led to significant increase in the number and the value of the guaranteed loans during 2020, where the number of SMEs loans outstanding under this facility stands currently at 4,741 loans with a total guaranteed value of JOD315 million contributing to increase in total number of loans guaranteed by JLGC stands to 8466 loans with total insured value of JOD410 million as of November 30,2020.



time.

31. This component will be complemented by IBRD advisory services under the Jordan Joint IFC/IBRD MSME Facility 2.0. The advisory services will support developing a portfolio guarantee product to facilitate increased credit to MSMEs over the medium-term. In portfolio guarantees, the decision to grant a guarantee is not assessed on an individual basis. Rather, the decision of whether a guarantee is granted is based on some predefined eligibility criteria³² with accredited banks and MFIs entitled to attach guarantees to loans within an eligible category without prior consultation of the JLGC. In the portfolio approach, PFIs will play the screening function and are the distribution channel of the guarantees. This approach generally leads to a higher quantity of loans with lower implementation costs, and direct involvement of the intermediary. Portfolio approach is generally preferable for microloans due to high transaction costs of individual guarantees for guarantee facility and its limited capacity/skills to appraise micro entrepreneurs. The Advisory will cover designing portfolio guarantee product and providing training and capacity building to JLGC staff to conduct PFI due diligence. This complementary TA will cover adjusting the portfolio guarantee product, accelerating implementation of the guarantee scheme and providing training and capacity building to JLGC staff to conduct PFI due diligence.

32. The component is also complemented by TA to JLGC to implement an IT system that will facilitate the roll out and expansion of the portfolio guarantee product. It is expected that the interface between JLGC and PFIs will be through advanced IT portals, enabling portfolio submission, guarantee issuance, performance monitoring and claims submission to be conducted in real time. For the COVID recovery period, the majority of the guarantee chain will be electronic. Moreover, the IT systems will be needed to achieve the projected scale of guarantee volume when the portfolio product is fully operational. Finally, the IT system would gather and retain sufficiently detailed *Transactional-Level Data* to produce high frequency *Performance Measurements*. In addition, it would produce sufficient data to implement long-term *Impact Evaluations* based on the *Experimental Design*. More specifically it would gather and retain transaction-level data on the Borrower, The Lender, The Loan and the Guarantee.

33. The portfolio approach is particularly important in the context of the COVID-19 crisis, and under the CBJ line-of-credit, where firms' survival is crucial and time is of the essence.³³ This component will streamline and clarify upfront the application process in order to minimize the paperwork requested and speed-up implementation of the current individual guarantee scheme until the new portfolio guarantee scheme is launched.

34. It is important to emphasize that this is not a greenfield component and that the Project will not put in place a new facility at a time of crisis/emergency, which will help make the proposed response to be rapid. As mentioned, JLGC has already begun to provide the portfolio guarantees for SMEs to support a JOD500 million liquidity facility from CBJ. This led to a significant increase in the number and the value of the guaranteed loans during 2020. As such, in the first instance, the project will support JLGC to build up the

³² The predefined eligibility criteria will be designed and agreed on with JLGC.

³³ Currently, JLGC is implementing the individual approach, where JLGC typically examines the eligibility of firms, assesses the risk of credits on a case by case basis, and decides whether the guarantee will be granted. This approach typically ensures lower volumes with a generally higher quality of guaranteed loans, but also higher administrative costs. In portfolio guarantees, the decision to grant a guarantee is not assessed on an individual basis. Rather, the decision of whether a guarantee is granted is based on predefined eligibility criteria with MFIs entitled to attach guarantees to loans within an eligible category without prior consultation of the JLGC. In the portfolio approach, MFIs play the screening function and are the distribution channel of the guarantees.



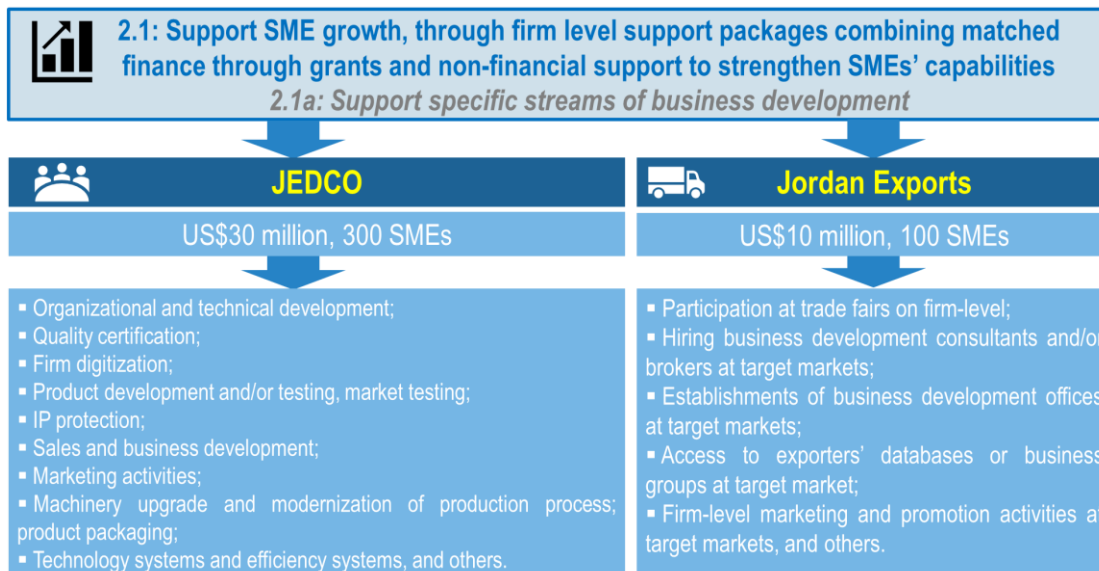
provisional fund needed to support the microfinance portfolio guarantees issued under the CBJ line-of-credit in the first phase. Moreover, JLGC has already started to provide portfolio guarantee to two MFIs. Thus, there is already eligibility criteria to assess MFIs by the CBJ. The proposed 85 percent guarantee coverage is timebound, but the build-out of the portfolio guarantee itself will continue to ensure medium-term objectives of recovery. As in the medium-term, the project proposes to support JLGC to develop a standing portfolio guarantee for MSMEs including the eligibility criteria, coverage, and potential target segments (e.g., women-owned microenterprises) following assessment of initial portfolio product performance, to flexibly address in part an estimated gap of between JOD 185-440 million.

COMPONENT 2: SUPPORT MSME RESILIENCE AND GROWTH (US\$58 MILLION)

35. **The Project will support SMEs in improving their readiness and capabilities to cope with the Covid-19 pandemic** and nurturing innovation to catalyze recovery, build back better, and adapt to a “new normal” business environment. To support the targeting of women-led/owned firms across, all activities under this component will be guided by a gender action plan that will set out specific targets and outreach mechanisms, as well as identify relevant training and measures to facilitate women’s participation. This Gender Action Plan will be part of the Operations Manual, developed in a consultative manner, and disclosed to ensure relevance and feasibility of proposed actions. Actions will furthermore seek to support other vulnerable groups leading MSMEs. Also, as the density of new business registration is significantly lower in Jordan, the activities under Component 2 will address this issue, where JEDCO will provide entrepreneurship awareness programs to help aspiring individuals to decide on starting businesses, or be part of founder teams, and provide them with the basic tools needed to plan and execute this. The MSME support centers will also refer aspiring individuals/entrepreneurs to other programs in Jordan to support their entry.

Sub-component 2.1: Support SME Growth (US\$47 million), through firm level support packages combining grants, firm specific advice/coaching and network building to crowd in additional finance, improve firm level productivity, develop new products and access new markets.

36. **(a) JEDCO and Jordan Exports (JE) will support specific streams of business development (US\$40 million) through firm-level matching grants**, including support to SMEs in establishing backward-forward linkages with large companies (foreign and domestic), increase their integration in the global value chains in the export and local markets and tap into public procurement opportunities; develop SMEs’ capabilities to scale beyond the limited size of the local economy and follow emerging export market demands; increase the managerial and institutional capabilities of SMEs; promote exports of Jordanian products to new and existing markets; improve the efficiency of SMEs through adopting climate-smart solutions; and support investment readiness of SMEs, to contribute towards developing a growth pipeline and de-risking investments by financial institutions in Jordanian SMEs. The program will be results-based, with clear criteria for eligible SMEs who have local or export market growth aspirations to achieve measurable objectives (e.g. revenue increase, productivity improvement, job creation, others).



37. **The program will aim to develop firm capabilities and productivity to improve their performance.** It will support SMEs that already have some scale and are either exporting/indirectly exporting or are aspiring exporters in modernizing production and services lines to improve productivity, including climate related efficiencies around water/energy/waste, adopting climate-smart solutions, and developing new higher value-added products, increasing technology adoption (particularly digital technologies), improving management practices, developing their products and services to abide by the rules of origin requirements and quality standards at target markets. While export-oriented firms are key target group, the program will also target other SMEs that have strong growth prospects within the local market.

38. **JEDCO will manage firm-level capability building and JE will provide firms with export promotion support through a mix of grants and advisory services.** The program will provide results-based matching-grants to SMEs who have local or export market growth aspirations to achieve measurable objectives (e.g. revenue increase, productivity improvement, job creation, others). JEDCO and JE may conduct firm-level diagnostics for SMEs to identify gaps and opportunities, if deemed necessary, and provide matching grants to support SMEs' growth through private sector vendors. This program will build on (and scale up) existing export development programs at JEDCO. Existing JEDCO supplier development initiatives may be further enhanced.

39. **In the immediate term, the program will provide just-in-time support to maintain uninterrupted operations and preserve capabilities of viable and export-focused SMEs in the market to manage the COVID-19 shock** The program will offer a transparent and time-bound fast-track to support up to 50 SMEs that have clear and immediate requirements as it relates to improving efficiencies and increasing revenues in the near term. Under this track, JEDCO will provide rapid support through a simplified process with clear criteria. In parallel, JEDCO will hire a consulting firm to support, guide and coach the selected SMEs in implementing their plans and achieving their agreed upon objectives.

40. **This subcomponent will benefit from a joint framework of collaboration with Jordan's Innovative and SME Fund (ISSF) and the Ministry of Digital Economy and Entrepreneurship (Youth, Technology and Jobs' project) in areas related to innovative products and services' creation and digital firms' growth.** In addition,



matching grants could support SMEs become bankable and/or investment ready to be eligible for bank financing and ISSF or other funds. In general, the project will encourage JEDCO and JE to build synergies to investment funds, financial intermediaries, and other WB supported programs, including the mentioned Youth, Technology and Jobs project, and ISSF. In parallel, the Bank is supporting the Government of Jordan in developing an “National Entrepreneurship Policy” and action plan, which will support further coordination among entrepreneurs/SME support programs through referrals, technical coordination, shared database of SMEs, and other measures.

41. (b) **Jordan Exports will support sector-level export promotion activities (US\$7 million) through market access intermediaries**, to help SMEs access new markets and expand in existing ones. Support services will include market intelligence, business to business matchmaking, participation in specialized trade fairs and industry events, sector-level marketing and promotion activities, capacity building for export promotion specialists, and others. The Gender Action Plan will identify support services that may be of specific interest to women entrepreneurs to strengthen their productivity and competitiveness. The program will therefore support SMEs in sectors where Jordanian exports are most competitive. The program will leverage ongoing value-chain assessments underway³⁴ to help SMEs connect to global value chains and build on lessons learned from backward-forward linkages modeled through intermediaries. The program will rely on existing market access intermediaries, sector and professional associations in market access and B2B, who have professional experience in business matchmaking and export promotion, in the implementation of activities, following a competitive selection process, pre-defined criteria, and on performance basis. Activities will capitalize and expand upon the RIMP Business-to-Business (B2B) services.



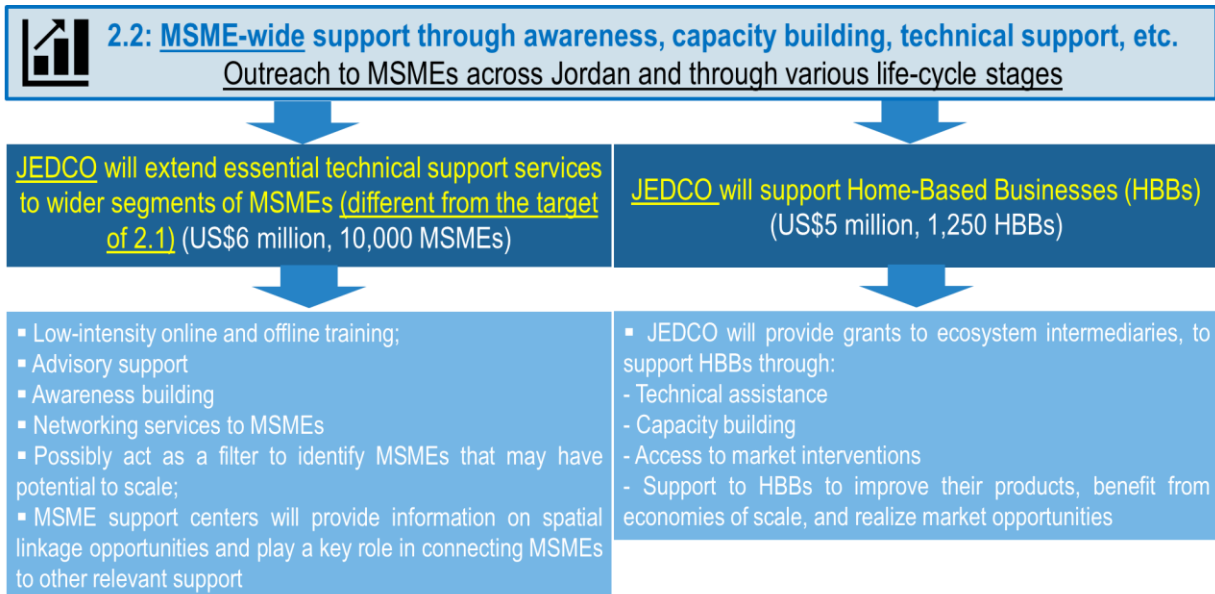
³⁴ Opportunities revealed in agricultural value chains are acquisition of common services for activities requiring economies of scale, e.g. logistics, packaging, digital platforms, traceability systems, testing facilities; and other activities such as quality certification. Opportunities in medical services value chain are acquisition of common services for activities requiring economies of scale such as the acquisition of diagnostics equipment or IT systems.



Sub-Component 2.2: Provide MSME-wide support (US\$11 million) through awareness, capacity building, and outreach to MSMEs across Jordan and through various life-cycle stages.

42. **(a) JEDCO will extend essential technical support services to wider segments of MSMEs** (smaller or less developed SMEs, different from the target of 2.1) through a number (3-5) of SME support centers. They will provide low-intensity online and offline training, advisory support, awareness building, and networking services to MSMEs to meet basic information needs, particularly outside the main commercial centers, and possibly act as a filter to identify MSMEs that may have potential to scale. MSME support centers will be the front facing entities of JEDCO in Jordan. They will provide information on spatial linkage opportunities and play a key role in connecting MSMEs to other relevant support (financial and non-financial) programs in Jordan (they will also provide general managerial trainings; on-site/online advisory services to MSMEs, delivered through specialized field experts, etc.). Jordan's SME agency, JEDCO, will have responsibility for the centers, which will be hosted at partner premises and services will be provided by private consultants. It should be emphasized, that the project will not support the establishment of new physical centers, but it will utilize existing premises at partner organizations (chamber of commerce/industry, universities, others). The project will support the refurbishment of selected premises to fit with the requirements of BDS support. Centre service delivery will be outsourced, although JEDCO will have 1-2 staff members per center to ensure consistency of implementation and provide information about other JEDCO programs. The project will draw on extensive direct experience gained through supporting SME Centers in WBG projects in Kuwait and Saudi Arabia in the last five years.

43. **(b) JEDCO will support Home-Based Businesses (HBBs)** through technical assistance, capacity building, and access to market interventions, to help them improve their products, benefit from economies of scale, and realize market opportunities – on a group level through ecosystem intermediaries (e.g. platforms, aggregators, associations) (Ecosystem Development Grant). JEDCO will deliver this by providing grants to ecosystem intermediaries, based on a competitive process and specific results, to support HBBs. Market intermediaries will support technical assistance, capacity building, conduct business diagnostics, and provide business development, marketing, sales and distribution support to HBBs. To contextualize, HBBs are microenterprises registered under a special registration category to allow them to operate from home. These are mostly concentrated in underserved areas, female-led, and lack capacity to scale. The Project's objective is to help them develop their products, expand in the local market through ecosystem intermediaries, and scale their operations to become small businesses. This is within JEDCO's mandate to help MSMEs grow and support wider MSME subsets.



COMPONENT 3: PROJECT MANAGEMENT AND INSTITUTIONAL DEVELOPMENT (US\$7 MILLION)

44. **The Ministry of Planning and International Cooperation (MoPIC) will lead overall Project management and coordination.** MoPIC will establish a Project Management Unit (PMU) to lead the implementation of Project activities, which will include required specialists to support project management. MoPIC will sign subsidiary agreement with the Jordan Loan Guarantee Corporation JLGC and implementation agreements with Jordan Enterprise Development Corporation (JEDCO) and Jordan Exports (JE). MoPIC will coordinate project implementation with the organizations, share a database of beneficiaries, set priorities of the programs, and facilitate the referral of eligible MSMEs among each other’s programs, to maximize the impact of the project.

45. **Due to their important roles, the Project will build the institutional capacity of JEDCO and JE, following an institutional assessment conducted by partner organization (GIZ)³⁵ and a World Bank assessment of needed elements to support their institutional development.** JEDCO has made progress in laying the foundations for a stronger SME support ecosystem and promoting reallocation of resources to more efficient companies over the recent years. To sustain this progress and expand its services to Jordanian SMEs in the upcoming years, JEDCO needs institutional capacity building in specific areas to improve its efficiency and maximize results. These areas have been identified through a World Bank institutional assessment of JEDCO. Jordan Exports (JE) was established in January 2019 as a government initiative that aims to develop and grow Jordan’s exports, as a Not-for-Profit Public-Private Shareholding Company, with the private sector holding a majority share of the company. JE is expected to play a leading national role in promoting Jordanian exports. Component 3 of this project is designed to directly address these key areas of necessary institutional capacity building for JEDCO and JE, to ensure a successful implementation of the project as well as sustainable long-term operations of these key organizations.

³⁵ GIZ has completed an institutional assessment of JEDCO in November 2020, which the World Bank team will factor in preparations. The World Bank has supported the establishment of JE and put together a suggested institutional development priority, which will be factored in preparations.



46. **The Project will support JEDCO and JE in developing** a Monitoring & Evaluation (M&E) framework and a comprehensive Enterprise Resource Planning (ERP) system, including a Customer Relationship Management (CRM) system for beneficiary MSMEs; developing/implementing organizational work plan, communications strategy, gender action plan, stakeholders engagement plan, and plans for supporting other vulnerable groups and implementing their correspondent ESCP measures. The Project will also support the organizations in technical expertise and systems to support the implementation of relevant components and may also support capacity building for non-government SME service providers if there are identified gaps in quality/quality of provision. More specifically, the PMU will support JE in procuring professional experts to support its institutional development and project implementation. They will be responsible for gathering, assimilating, and availing focused business intelligence as it relates to markets and products/services, developing targeted B2B linkages in key markets to enable Jordanian SMEs, to attract new buyers, penetrate new markets and, increase their market share. The project will also support knowledge-transfer from global SME and Export promotion agencies to JEDCO and JE, including staff training and systems development.

47. **The project will support JEDCO and JE in developing their research, analytical capacity, and advocacy role to advocate for SME interests in broader Government policy making.** The organizations can design logical interventions that address binding constraints, in close coordination with the Ministry of Industry and Trade (MoIT). These activities will be included in the individual implementation agreement between MoPIC and the two organizations.

48. **MoPIC will establish a Steering Committee** to oversee the implementation of activities and ensure synergy among public and private institutions supporting MSMEs in Jordan, headed by MoPIC and comprising mainly MoIT, MoDEE, CBJ, JLGC, JEDCO, and JE.

Legal Operational Policies

	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Assessment of Environmental and Social Risks and Impacts

49. **The environmental risk rating of the Project is moderate.** The operation of industrial, commercial and service MSMEs (less than 5 employees and annual turnover less than \$ 280,000) and SMEs (less than 100 employees and annual turnover less than \$ 4,225,000) are normally associated with moderate environmental risks related to their solid and liquid waste disposal, air emissions, handling of chemicals and occupational health and safety (OHS) aspects. Such risks, and related impacts, on the environment are low in magnitude, away from environmentally sensitive areas, predictable, site-specific, could be mitigated/prevented by locally available measures and associated with low probability to cause serious adverse effects on the environment and/or human health.

50. The Project interventions include: (i) installation or replacement of new machinery under Component 2.1.1 and 2.1.2, part of JEDCO interventions, which would be associated with moderate risks/impacts (such as



noise, dust, waste management and OHS related risks) and there would be additional risks related to increase/growth of production and associated waste generation; (ii) working capital that would enable MSMEs (Component 1) to continue their existing operations overcoming the challenges imposed by COVID19 and this would not cause additional risks (same level of risk before the Project) that are moderate and low in magnitude (only involving microenterprises); and (iii) soft interventions (such as enhancing managerial capabilities, business skills, promotional and market reach out activities, improving linkages with other companies, improving quality control of production ? etc.) under Components 2.1.1, 2.1.2, 2.1.3, 2.2.1, 2.2.2 and 3, including all interventions under JE, that are associated with no/low environmental risks. There will be also indirect impacts related to the general improvements in the MSME/SME sector as it would lead general economic growth that would lead to start ups of new MSMEs/SMEs and increasing the related services which would also add to the general MSME/SME risks highlighted above. The Project will also be associated with environmental benefits, as MSMEs/SMEs benefiting from the improvements under Component 2 would improve their efficiency in terms of optimize use of energy, water and raw materials as part of reducing operational costs.

51. The social risk rating is moderate. The Project will focus on supporting the resilience of MSMEs during the pandemic and facilitating their post COVID-19 recovery to retain and develop their capabilities and market position and will provide only working capital (Component 1) to, and equipment upgrades (Component 2) of, existing SMEs. Thus, the project will not involve direct adverse social impacts related to land acquisition and civil works. However, the project will have a gender focus to ensure women as business leaders/owners, as well as employees and will support the targeting of women-led/owned firms across. The project benefits are accessible to all established businesses in Jordan, including those owned by refugees. In such case, the key social risks of project are as follows: 1) risks related to social exclusion in its various forms that would need to be mitigated through establish adequate outreach and consultation mechanisms; 2) risks related to labor and working conditions for project workers who consist of the PMU and contracted workers/consultants delivering coaching and training programs; 3) risk of exposure, including vulnerable youth, women and refugees to sexual harassment or exploitation SH/SEA, in the context of applying for, and obtaining support from the project as well as Community Health and Safety Risks due to COVID-19 contagion.

52. ESS1, ESS2, ESS3, ESS4, ESS9 and ESS10 are relevant to the project. The borrower has prepared a preliminary SEP that includes: (i) stakeholder identification and analysis; (ii) planning engagement and information disclosure modalities designed to address the needs and concerns of various stakeholder groups particularly in the context of COVID-19; (iii) defining roles and responsibilities of different entities in implementing the SEP; and (iv) a grievance mechanism (GM) to receive and facilitate resolution of stakeholder concerns or grievance.

53. Environmental and Social Management Framework (ESMF) and Labor Management Procedures (LMP) will be prepared and disclosed before the project effectiveness. The ESMF will i) assess the pipeline of projects under Component 1 and 2 and identify the likely environmental and social impacts of each category of MSMEs in the pipeline; (ii) assess the ESMS currently existing at JLGC and operating under the ISSF, identify the existing gaps, and recommend any gap filling measures to fill those gaps; (iii) identify a screening criteria to screen out subprojects that would be of high or substantial risk; (iv) identify the environmental and social assessment instruments that are needed for eligible subprojects to comply with the national law and any additional requirements by the ESF; (v) identify the ESMS needs for MFIs to be selected by JLGC; (vi) identify the monitoring and due diligence requirements to be carried out by JLGC and JEDCO; (vii) identify the training and capacity building needs for different projects beneficiaries; (viii) estimate a cost for implementing the



requirements of the ESMF; and (ix) consult with relevant stakeholders about the E&S aspects of the Project.

54. The LMP will include (i) assessment of labor related risks involved in the project covering the different category of workers to be engaged in the project; (ii) establish and maintain a safe working environment consistent with national law and ESS2 for all project workers, covers terms and condition of employment, non-discrimination and equal opportunities for recruitment of project workers; protection of project workers, including vulnerable workers such as women, persons with disabilities, and youth as appropriate; (iii) include OHS checklists related to main sectors of MSMEs, codes of conduct that include measures to prevent Gender Based Violence/ Sexual Exploitation and Abuse (GBV/SEA); safety training etc.

55. The deferral of those instruments is because: (i) the project is prepared under paragraph 12 of Section III of the Investment Project Financing (IPF) Policy for projects under urgent needs to recover from the impacts from COVID-19 pandemic; (ii) the environmental and social risks are moderate; (iii) there is a reasonable institutional capacity at MOPIC and JLGC level with previous record of performance as indicated earlier and (iv) As per the ESCP, the ESMF will be prepared before the project Effective date and before any funds are disbursed. The Bank clearance and disclosure of the ESMF and LMP will be an effectiveness condition and will be part of the Legal Agreement.

E. Implementation

Institutional and Implementation Arrangements

56. **The Ministry of Planning and International Cooperation (MoPIC) will lead overall Project management and coordination.** MoPIC will establish a Project Management Unit (PMU) to lead the implementation of Project activities, which will include Project Coordinator, Technical Advisor, Financial Management Specialist, Procurement Specialist, Social and Environmental Specialists, Gender/Monitoring and Evaluation Specialists. MoPIC will sign subsidiary agreement with the JLGC and implementation agreements with JEDCO and the JE.

57. **Due to their important roles, the Project will build the institutional capacity of JEDCO and JE.** The Project will support JEDCO and JE in developing a Monitoring & Evaluation (M&E) framework and a comprehensive Customer Relationship Management (CRM) system for beneficiary MSMEs. The Project will also support the organizations in developing research, analysis and advocacy functions, as well as technical expertise and manuals to support the implementation of relevant components. These activities will be included in the individual implementation agreements between MoPIC and the two organizations.

58. **The Project will establish a Steering Committee** to oversee the implementation of activities and ensure synergy among public and private institutions supporting MSMEs in Jordan, headed by MoPIC and comprising mainly MoIT, MoDEE, CBJ, JLGC, JEDCO, JE, and private sector representatives of chambers of commerce and industry and relevant business associations.



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Approved By

Practice Manager/Manager:		
Country Director:	Holly Welborn Benner	19-Feb-2021

