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R2017-0140/1

June 6, 2017

**Closing Date: Friday, June 23, 2017
at 6 p.m.**

FROM: Vice President and Corporate Secretary

Jordan – Innovative Startups Fund Project

Project Appraisal Document

Attached is the Project Appraisal Document regarding a proposed loan to Jordan for an Innovative Startups Fund Project (R2017-0140), which is being processed on an absence-of-objection basis.

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Report No: PAD2308

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF US\$50 MILLION

TO THE

HASHEMITE KINGDOM OF JORDAN

FOR AN

INNOVATIVE STARTUPS FUND PROJECT

June 2, 2017

Finance and Markets Global Practice
Middle East And North Africa Region

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CURRENCY EQUIVALENTS
(Exchange Rate Effective April 30, 2017)

Currency Unit =	Jordanian Dinars
JOD 1 =	US\$1.41
US\$ 1 =	JDR 0.710

FISCAL YEAR
January 1 - December 31

ABBREVIATIONS AND ACRONYMS

BDC	Business Development Center
BDS	Business Development Services
BOD	Board of Directors
CBJ	Central Bank of Jordan
CFA	Co-Financing Agreement
CFO	Chief Financial Officer
CHF	Cooperative Housing Foundation
CPF	Country Partnership Framework
DA	Designated Account
DANIDA	Danish International Development Agency
DFATD	Department of Foreign Affairs, Trade, and Development
DFID	Department for International Development
DG	Director General
EBRD	European Bank for Reconstruction and Development
EDP	Executive Development Plan
EFF	Extended Fund Facility
EPC	Economic Policy Council
ESIF	Early Stage Investment Finance
ESMF	Environmental and Social Management Framework
FM	Financial Management
FO	Financial Officer
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GEI	Global Entrepreneurship Index
GOJ	Government of Jordan
GP	General Partner
IC	Investment Committee
IEG	Independent Evaluation Group
IMF	International Monetary Fund



IPCO	Intellectual Property & Commercialization Office
IR	Investment Readiness
iSMEs	Innovative SMEs
ISSF	Innovative Startups and SMEs Fund
JACPA	Jordanian Association of Certified Public Accountants
JICA	Japan International Cooperation Agency
JLGC	Jordan Loan Guarantee Corporation
LLP	Limited Liability Partnerships
LP	Limited Partnership
LPS	Limited Partnership by Shares
M&E	Monitoring and Evaluation
MFI	Microfinance Institution
MOPIC	Ministry of Planning and International Cooperation
MSMEs	Micro Small Medium Enterprises
OECD	Organization for Economic Co-operation and Development
OPIC	Overseas Private Investment Corporation
P4R	Program for Results
PA	Project Agreement
PE	Private Equity
PIU	Project Implementation Unit
POM	Project Operations Manual
PSC	Private Shareholding Company
QRCE	Queen Rania Center for Entrepreneurship
SA	Subsidiary Agreement
SCD	Systematic Country Diagnostic
SECO	Secretariat for Economic Affairs
SMEs	Small and Medium Enterprises
SORT	Systematic Operations Risk-rating Tool
SPV	Special Purpose Vehicle
T&C	Trade and Competitiveness
TOR	Terms of Reference
VC	Venture Capital
WBG	World Bank Group

Regional Vice President: Hafez Ghanem

Acting Country Director: Kanthan Shankar

Senior Global Practice Director: Ceyla Pazarpasioglu

Practice Manager: Jean Pesme

Task Team Leader(s): Randa Akeel



BASIC INFORMATION

Is this a regionally tagged project? No	Country(ies)	Financing Instrument Investment Project Financing
<input type="checkbox"/> Situations of Urgent Need of Assistance or Capacity Constraints <input checked="" type="checkbox"/> Financial Intermediaries <input type="checkbox"/> Series of Projects		
Approval Date 23-Jun-2017	Closing Date 30-Nov-2023	Environmental Assessment Category F - Financial Intermediary Assessment
Bank/IFC Collaboration Yes	Joint Level Complementary or Interdependent project requiring active coordination	

Proposed Development Objective(s)

The project's development objective is to increase private early stage equity finance for innovative small and medium enterprises ("SMEs").

Components

Component Name	Cost (US\$, millions)
Equity/Quasi Equity Financing Program	44.75
Deal-Flow Creation Support	3.13
Project Management, Coordination, and Monitoring and Evaluation	2.00

Organizations

Borrower :	Government of Jordan
Implementing Agency :	Jordan Loan Guarantee Corporation

PROJECT FINANCING DATA (IN USD MILLION)



<input checked="" type="checkbox"/> Counterpart Funding	<input checked="" type="checkbox"/> IBRD	<input type="checkbox"/> IDA Credit <input type="checkbox"/> Crisis Response Window <input type="checkbox"/> Regional Projects Window	<input type="checkbox"/> IDA Grant <input type="checkbox"/> Crisis Response Window <input type="checkbox"/> Regional Projects Window	<input type="checkbox"/> Trust Funds	<input type="checkbox"/> Parallel Financing
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Total Project Cost: 98.00	Total Financing: 98.00 Of Which Bank Financing (IBRD/IDA): 50.00	Financing Gap: 0.00
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Financing (in US\$, millions)

Financing Source	Amount
International Bank for Reconstruction and Development	50.00
Local Sources of Borrowing Country	48.00
Total	98.00

Expected Disbursements (in US\$, millions)

Fiscal Year	2017	2018	2019	2020	2021	2022	2023	2024
Annual	0.00	20.00	7.50	7.50	5.00	5.00	4.00	1.00
Cumulative	0.00	20.00	27.50	35.00	40.00	45.00	49.00	50.00

INSTITUTIONAL DATA

Practice Area (Lead)

Finance & Markets



Contributing Practice Areas

Governance
Trade & Competitiveness

Gender Tag

Does the project plan to undertake any of the following?

a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF

No

b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment

Yes

c. Include Indicators in results framework to monitor outcomes from actions identified in (b)

Yes

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	● Moderate
2. Macroeconomic	● Substantial
3. Sector Strategies and Policies	● Substantial
4. Technical Design of Project or Program	● Substantial
5. Institutional Capacity for Implementation and Sustainability	● Substantial
6. Fiduciary	● High
7. Environment and Social	● Moderate
8. Stakeholders	● Low
9. Other	
10. Overall	● Substantial



COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

Yes No

Does the project require any waivers of Bank policies?

Yes No

Safeguard Policies Triggered by the Project

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

Legal Covenants

Sections and Description

Schedule 2, Section I.A.1(b) of the Loan Agreement: Co-financing from CBJ in an amount equivalent to US\$13,880,000 no later than 45 days from Effective Date.

Sections and Description

Schedule 2, Section I.A.2(d) of the Loan Agreement: Recruitment of an ISSF Manager no later than 90 days from Effective Date.

Sections and Description

Schedule 2, Section I.A.2(e) of the Loan Agreement: Recruitment of a Senior Accountant no later than 90 days from Effective Date.



Sections and Description

Schedule 2, Section I.A.2(f) of the Loan Agreement: Adoption of the Enterprise Resource Planning, or other accounting software system no later than 180 days from Effective Date.

Sections and Description

Schedule 2, Section I.A.2(h) of the Loan Agreement: Hire an external auditor of ISSF no later than 6 months after Effective Date.

Sections and Description

Schedule 2, Section I.A.2(j) of the Loan Agreement: Establishment of an Investment Committee within 180 days of Effective Date.

Conditions

Type

Effectiveness

Description

5.01 (a) of the Loan Agreement: The Subsidiary Agreement has been duly authorized by the Borrower and JLGC and is legally binding upon the Borrower and JLGC in accordance with its terms.

Type

Effectiveness

Description

5.01 (b) of the Loan Agreement: The Management Agreement between ISSF and the ISSF Manager has been duly authorized by ISSF and the ISSF Manager and is legally binding on ISSF and the ISSF Manager in accordance with its terms.

Type

Effectiveness

Description

5.01 (c) of the Loan Agreement: The JLGC has established the ISSF in accordance with the laws and regulations of the Borrower such that the ISSF has the capacity to perform the functions and obligations assigned to it under the Project.

Type

Effectiveness

Description

5.01 (d) of the Loan Agreement: The Articles of Association and Memorandum of Association have been signed by JLGC and the Central Bank of Jordan (“CBJ”) and are legally binding on JLGC and the CBJ in accordance with their respective terms.

Type

Disbursement

Description

Schedule 2, Section IV, B.1.(b): Hiring of a Chief Financial Officer by ISSF

PROJECT TEAM

Bank Staff

Name	Role	Specialization	Unit
Randa Akeel	Team Leader(ADM Responsible)	Finance	GFM05
Samira Al-Harithi	Procurement Specialist(ADM Responsible)	procurement	GGO05
Lina Fares	Procurement Specialist	Procurement	GGO05
Walid Hamoud Ali Al-Najar	Financial Management Specialist	Financial Management	GGO23
Ali H. Abukumail	Team Member	Senior Private Sector Specialist	GTC05
Andrianirina Michel Eric Ranjeva	Team Member	Disbursement	WFALN
Concepcion Aisa Otin	Team Member	WB Treasury	FABBK
Ellen Olafsen	Peer Reviewer	infoDev	GTCID
Isimkah Ibuakah	Team Member	Financial Sector Specialist	GFM05
Issa Aghabi	Team Member	IFC VC Unit	CTTVI
Jad Raji Mazahreh	Team Member	Financial Management	GGO23
John F. Speakman	Peer Reviewer	Trade & Competitiveness	GTC05
Justin Piers William Hill	Team Member	Senior Private Sector Specialist	GTCIE
Lucero Del Carmen Burga Bravo De Rueda	Team Member	Economist	GFM05
Mariana T. Felicio	Safeguards Specialist	Social Safeguards	GSU05
Marjorie Penesa Espiritu	Team Member	Project Assistance	GFM05
Mihasonirina Andrianaivo	Peer Reviewer	SME Financing	GFM06
Natalia Robalino	Team Member	Legal	LEGIA
Ruzgar Barisik	Peer Reviewer	IFC Venture Capital	CTTVI
Serene Shalan	Team Member	Ecosystem support	GTC05
Simon C. Bell	Peer Reviewer	SME Financial Access	GFM2A
Steve W. Wan Yan Lun	Team Member	Operations	GFM05
Tracy Hart	Safeguards Specialist	Environment	GEN05



Extended Team

Name	Title	Organization	Location
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HASHEMITE KINGDOM OF JORDAN
INNOVATIVE STARTUPS FUND PROJECT

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I. STRATEGIC CONTEXT

A. Country Context

1. **Economic growth in Jordan has been on the decline in the aftermath of the global economic slowdown and due to the on-going regional crisis.** Jordan's economic growth is expected to have remained flat at 2.3 percent in 2016¹ but at an estimated 2 percent, it has reached the lowest rate in four years, and represented a 0.9 percentage point decline from 2014. Spillovers from the Syrian crisis have negatively impacted Jordan's economy, due to, among others, the closure of trade routes with Iraq and Syria for security reasons, a slowdown in tourist arrivals and receipts, and a weaker mining and quarrying sector due to decreases in global potash prices. The sectors that contributed the most to growth in Q3-2016 (latest published) were 'transport, storage and communications' and 'finance and insurance services.' The influx of over 655,496 registered Syrian refugees since 2012² has increased demand for energy, water and public services, increasing pressure on government expenditure.

2. **Rising unemployment is a key challenge and private sector led job creation is a priority of the on-going fiscal consolidation program resulting in a change in the historical role of the government as the main or sole source of employment.**³ Additionally, Jordan's employment elasticity of growth is low.⁴ The country continues to face increasing unemployment rates – estimates increased from 11.9 percent in 2014 to 15.3 percent in 2016⁵. The greater levels of unemployment are among the youth (35.6 percent⁶) and women who in the first three quarters of 2016 had an average unemployment rate of 23.9 percent whereas men had an unemployment rate of 13.2 percent in the same period⁷. The employed rate has notably been on a downward trend since 2009, reaching an average of 30.7 percent in the first three quarters of 2016.⁸

3. **The Jordanian private sector has a high level of informality.** Jordanian workers who tend to be well educated have a high reservation wage, preferring to stay unemployed until they gain a public sector job. For decades, unemployed Jordanians could stay jobless while being supported by remittance income from relatives working in Gulf Cooperation Council (GCC) countries⁹. With falling oil prices and efforts by governments in the GCC to promote employment of their nationals this scenario is no longer sustainable and there is a need to renew the social contract and facilitate alternative economic opportunities for Jordanians through the development of a more dynamic competitive private sector.

4. **According to the 2014 World Bank Report "Jobs or Privilege" (Report No. 92870), job creation in Jordan comes primarily from the retail and services sectors which are dominated by micro-firms that**

¹ Spring Meeting Brief 2017, The World Bank.

² UNHCR – as at January 19, 2017

³ IMF Economic Outlook

⁴ Jordan's employment elasticity of growth was estimated at 0.42 between 2000 and 2008 by the National Employment Strategy 2011-2010.

⁵ The World Bank, Jordan Economic Monitor, Fall 2016

⁶ Average for the first three quarters of 2016. Jordan Department of Statistics.

⁷ Jordan Department of Statistics.

⁸ The World Bank, Jordan Economic Monitor, Fall 2016.

⁹ Job Growth without Unemployment Reduction: The Experience of Jordan, Susan Razzaz and Farrukh Iqbal, The World Bank April 10, 2008



are often part of the informal economy and less productive in Jordan than in other developing countries. Certain higher productivity activities such as chemicals & pharmaceuticals, the food sector, and finance also contributed to job creation; these sectors including real estate accounted for 28 percent of total net job creation between 2006 and 2011. The report also shows that, like most other countries, net job creation in Jordan is generated mostly by startups (firms with less than 4 years of activity).

5. **However, startup creation is low due to barriers in the business environment and access to finance.** For every 10,000 working age persons, only 7 new limited liability firms are created annually in Jordan compared to an average of 26 new firms among all developing countries worldwide. The entry densities in many fast-growing developing countries such as Serbia, Brazil, Croatia, Chile, and Bulgaria are between three and ten times higher than in Jordan¹⁰. Even among newly created companies, many end up relocating to Dubai which has positioned itself as a regional leader in start-up financing and networks.

6. **In October 2016, the Economic Policy Council (EPC) of Jordan¹¹ released a set of 38 recommendations to aid the government in surpassing economic obstacles and boosting the national economy.** All these recommendations were adopted by the Cabinet on September 7, 2016, which aims to implement these measures as soon as possible¹² (see Annex 5 for details on all the recommendations). The first recommendation proposed by the EPC is to set up a fund to facilitate financing to innovative startups and SMEs in an effort to increase the number of startups with high-growth potential. In this context, the Government of Jordan requested a loan for US\$50 million from the World Bank to set up the fund which will provide startup financing as well as provide the necessary support to help foster creative ideas and grow viable businesses.

A. Sectoral and Institutional Context

7. **There are several well-defined gaps and challenges in the Jordanian entrepreneurship ecosystem that hinder startup creation and growth, with access to financing being the main one.** On the entrepreneur (demand) side, many individuals lack adequate education and training for successful business development; entrepreneurs operate in an unclear regulatory and cumbersome business environment; and they lack adequate financial products that can support them throughout the project lifecycle. On the policy side, there are restrictions on establishing investment funds and challenges related to taxes, bankruptcy, and minimum capital, most of which are currently being addressed through various programs from the World Bank and other international development organizations. On the investor (supply) side, investors want to see: innovative ideas and skilled entrepreneurs and workers that will not jeopardize the success of the business; an appropriate legal, regulatory and tax structure for various forms of financing tools; and protection of their rights and assets and ability to recuperate their money in the event of liquidation (investor protection, bankruptcy law, protection of intellectual property and collateral

¹⁰ 2014 World Bank Regional Report: “Jobs or Privilege: Unleashing the Employment Potential of the Middle East and North Africa”; Jordan Issue Brief

¹¹ The King ordered the formation of the Economic Policies Council in June 2016 giving it the mandate to discuss economic policies, programs and development plans. Functioning under the direct supervision of the King, the 15-member body is also tasked with identifying the main constraints holding back economic growth and propose solutions to overcome them. The premier is the only representative of his government on board. Other members include the governor of the Central Bank of Jordan and the director of the Department of Economic and Social Development at the Royal Hashemite Court as a rapporteur, along with private sector representatives and economic experts.

¹² These recommendations focus on eight areas: (a) SME financing, (b) Startup financing, (c) Export and growth financing, (d) Capital markets, (e) development of financial instruments, (f) Microfinance and insurance, (g) Lower cost of compliance for SMEs, and (h) Overarching economic legislative framework

registry). Description of issues related to the demand and supply side of early stage financing is provided below.

Entrepreneurship and Innovation Ecosystem

8. **The entrepreneurship ecosystem is comprised of all persons, organizations, or institutions involved in the delivery of a service or product and the demand for financing.** When referring to innovation and SMEs, key players can be entrepreneurs, their startup companies, investor networks, mentor networks, end users, and governments among others.

9. **The Global Entrepreneurship Index (GEI), the most exhaustive attempt to annually benchmark national ecosystems around the world ranks Jordan 64th out of 132 countries and the 10th in the MENA region.** The GEI data reveals that Jordan has above world average rates in Opportunity Perception, Start-up Skills, Networking, Cultural Support, Product Innovation and High Growth indicators but falls significantly below in terms of Risk Acceptance, and Risk Capital. As such, many enterprise-support entities report that without the availability of funding, it has become increasingly difficult to churn out the high quality and quantity of start-ups the economy needs.

Table 1. Snapshot of Entrepreneurship Support in Jordan across the Various Stages of Company Creation and Development

Type of support	Business Stage				
	Idea stage	Pre-startup/business planning stage	Startup stage	Early stage	Early growth/VC stage
Business competitions and prizes	1-2 regional initiatives				
Incubation			10 incubators across Jordan (including Zain Inc., Gaming Lab, iPark ICT, incubator (Orange))		
Acceleration (see Annex 7 for definition)			1 (Oasis500)		
Investment readiness and mentoring					Endeavor Jordan
Training, access to markets, business services, networks	QRCE* INJAZ	BDC* JEDCO*	BDC JEDCO Int@j	BDC JEDCO Int@j	BDC Endeavor Jordan Young Entrepreneurs' Association VC Funding Networking Service

*QRCE - Queen Rania Center for Entrepreneurship, BDC – Business Development Center, JEDCO – Jordan Export Promotion Corporation, Int@j - Information and Communication Technology Association of Jordan; INJAZ – means accomplishment in Arabic it is an educational program (see Box 4.2 in Annex 4 for details on all the ecosystem support entities in Jordan)

10. **Jordan's ecosystem is relatively well developed, there is no lack of innovative and creative ideas, however, capacity to generate the type of startups ready to be considered as viable by investors**



is limited. Jordan has 10 incubators, 2 techno parks, a business angel network, and several business and export promotion support entities working with budding entrepreneurs and SMEs on developing their business plans, accessing markets, managing their human resources and other business tasks. Equity investors state that there is strong potential to create successful start-ups in Jordan, but there are too few effective investment readiness programs and insufficient mentoring to prepare an entrepreneur for the due diligence and structuring undertaken by the equity investment industry or the soft skills needed to promote and manage a business. Hence, most entrepreneurs come to investors unprepared and without a real understanding about proper pitching techniques, team building, time management, negotiations, valuation, governance, or financial disclosure. Moreover, entrepreneurs who are fortunate enough to attract seed or angel investors often find themselves in need of ongoing advice, as few have managed a growth business before. They lack the practical knowledge to sustain a business, accelerate its growth, and attract investments to become a growth business (see Annex 4 for more detail on the Jordanian ecosystem).

Business Environment

11. **Challenges in the business environment are constraining investment and the ability of the private sector to grow and affect both the demand and the supply side.** The country's overall business environment ranking in the 2017 Doing Business is 118 out of 189 with the worst indicators being: Getting credit (185/189), Protecting minority investors (165/189), and Resolving Insolvency (142/189) (Table 2). Furthermore, the ranking for 'Starting a Business' slipped from 98 in 2016 to 106 in 2017 as did 'Dealing with construction permits' which fell from 96 to 109 in the same period. The World Bank Group has worked with the Ministry of Industry and Trade to reform the bankruptcy law and the law on secured transactions. Both laws have yet to be ratified by the Parliament. Both laws, once adopted, will have an impact in facilitating access to credit and equity investments for entrepreneurs (see Annex 4 part II for details on Institutional failures).

12. **Although domestic laws regarding private shareholding companies have deterred international shareholders, Jordan remains an attractive destination for offshore funds compared to other MENA countries.** Currently almost all investment funds in Jordan are registered as limited liability partnerships (LLP or LP) under a foreign jurisdiction (offshore) with an operating structure (General Partner – (GP)) based in Jordan. A recent study of the legal and regulatory environment for private equity (PE) and venture capital (VC) investment funds commissioned by the World Bank identifies a number of issues that need to be addressed to improve the PE and VC investment climate for locally based funds (see Annex 4 for details). The Companies Comptroller at the Ministry of Industry has expressed interest in creating a new law under a Decree for establishment of Jordanian private equity and VC funds with technical support from the World Bank. The World Bank can also work with the IMF to review and reform the taxation regime to accommodate PE and VC funds which is one of the key disincentives for registering funds in Jordan.



Table 2. Doing Business, 2016/2017

Topics	DB 2017	DB 2016
Starting a Business	106	98
Dealing with Construction Permits	109	96
Getting Electricity	48	60
Registering Property	96	96
Getting Credit	185	185
Protecting Minority Investors	165	166
Paying Taxes	79	82
Trading Across Borders	50	50
Enforcing Contracts	124	124
Resolving Insolvency	142	142

Source: Doing Business 2016.

The Supply of Early Stage Financing for Startups and Small and Medium Enterprises in Jordan

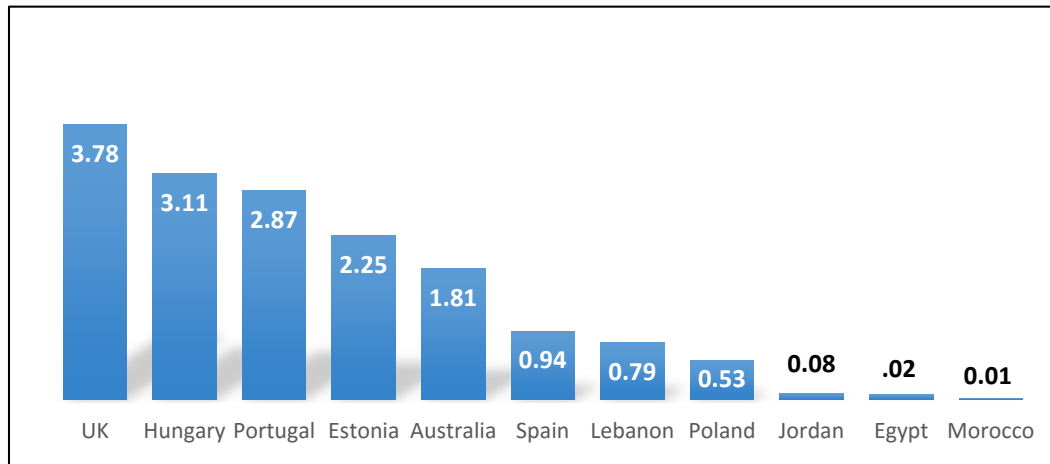
13. **Jordan has one of the lowest access to finance indicators in the world, especially for small enterprises.** In the 2013 World Bank Enterprise Survey, Micro and small firms (0 – 19 employees) rank access to finance as being the greatest obstacle to growth and productivity. A market assessment conducted by the European Bank for Reconstruction and Development (EBRD) in February 2016 shows that 83 percent of Jordanian start-ups depend on their own funds as the main source of financing, while 17 percent rely on other sources such as a loan from a bank or a microfinance institution (MFI), friends and family, and supplier credit.

14. **Commercial banks and traditional private equity investors do not finance early stage companies without substantial collateral due to the lack of information available (no track record, no financial statements) making it difficult to adequately assess the risk.** Traditional investors also shy away from the high transaction costs needed to help make early stage investments grow. In addition, the lack of a clear exit mechanism for investments discourages most investors from entering the market. A couple of Jordanian startups have exited in international markets at high cost (Aramex, Maktoub, Souq.com) but the most common form of exit is through share buy-back or selling shares to another investor. Subsequently, traditional investment funds focus their investments on later stage developed companies and most banks demand exorbitant amounts of collateral (up to 100 percent or more of the value of the loan) that most startups do not have. Hence, startups and young companies prefer to get equity investment from “Angel Investors” and VC funds¹³ not only for the financing but for the market and network opportunities such investors can provide. However, in Jordan, funding at the seed, early and VC stages is in very short supply.

¹³ See Annex 7 for definitions of key terminology used in the PAD. An Angel investor is any individual who invests his or her money in an entrepreneurial company. A real Angel investor as per the definition takes a personal stake in the success of the venture, by sharing their skills, experience, and networks. Sometimes a group of individuals together agree to form an ‘angel network’ to invest their money communally in a certain company. Venture Capital funds also invest in high risk companies (usually in larger ticket amounts once the company has proven its concept/market) but unlike Angel investors they are specialized financial institutions that invest other people’s money. VC funds also provide support and networking opportunities for their investees to ensure their viability.



Figure 1. Seed -VC Investment Rate/GDP (%)

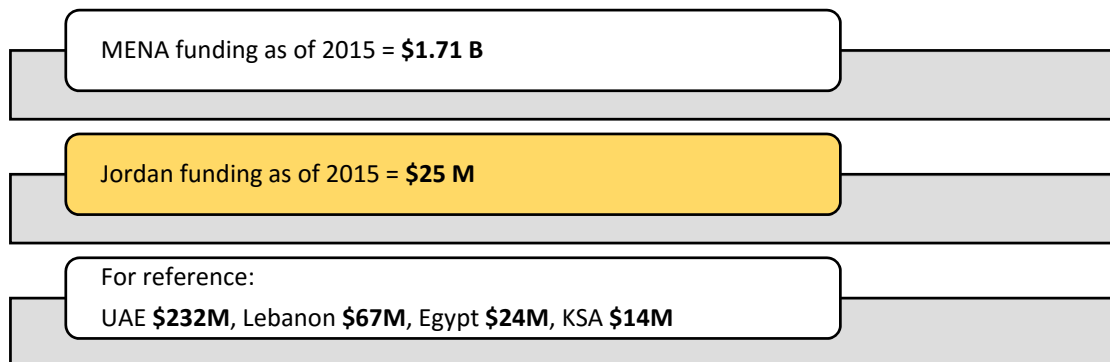


Source: For European countries – OECD (2014 or most recent available data); for MENA countries WB assessment of Early stage investment finance (ESIF) in MENA (approximate total industry investment per country as of 2014).

15. **Data from 2014 shows that there were six (6) private equity (PE) funds in Jordan dedicated to investments with US\$3 billion of investments planned.** While the growing PE market bodes well for companies who are at an advanced stage of development and looking to restructure, the Jordanian seed and VC investment market remains nascent in terms of available and deployed capital, and number of transactions. A data comparison of investments made in seed-VC as a percentage of GDP across various countries in MNA and Europe (Figure 1) highlights Jordan’s low level of activity in this space – although in relative terms, it has done slightly better than Egypt and significantly better than Morocco.

16. **Starting around 2010 Jordan saw a surge in Angel investing with the establishment of one of the first accelerators in the region (Oasis500) and the creation of the first Angel investor network.** This placed Jordan prominently on the equity investment regional map despite its small size (Figure 2).

Figure 2. Equity Investment by Startups in MENA as of 2015¹⁴



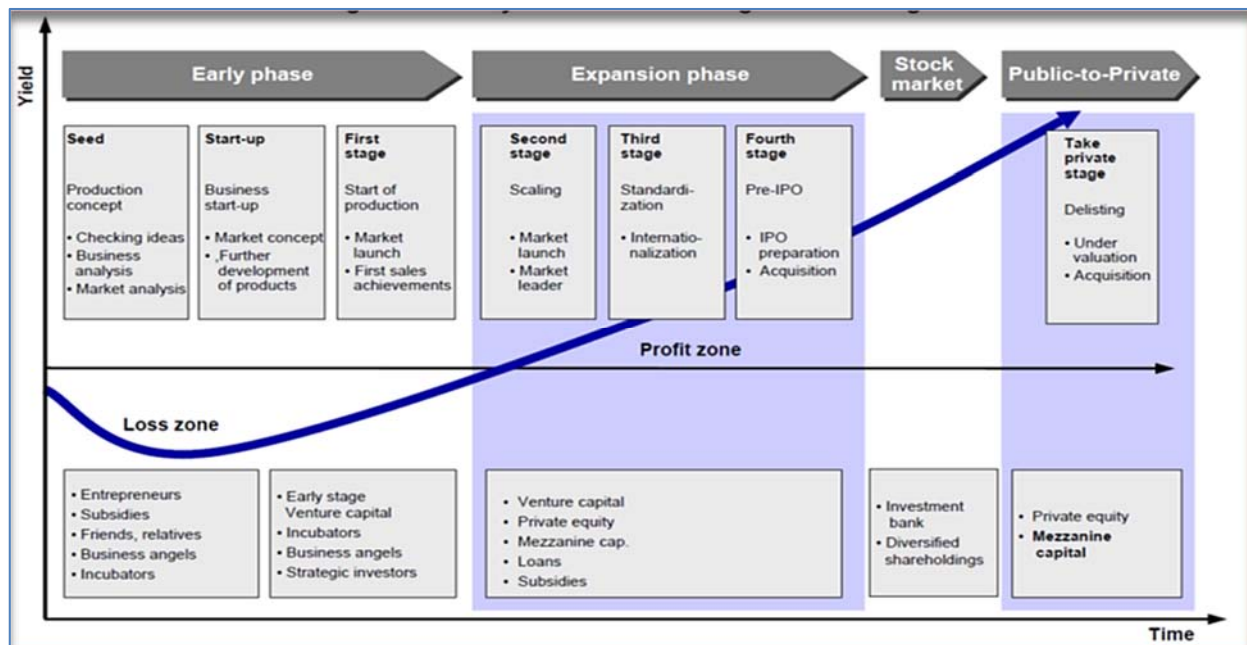
17. **Despite the good start, the momentum was not supported over the medium term leading to a deficiency in seed and VC funding.** According to an on-the-ground assessment conducted by the Project team, even for those startups that manage to reach the growth stage, few are capable of raising the US\$

¹⁴ State of MENA Funding report. 2016.



1-3 million needed to expand, highlighting the limitation in VC funding in the country. Today, Oasis500 remains the only accelerator focusing on the ICT sector and providing seed stage funding. Others are in the VC space providing funding in amounts of US\$1-3 million with a regional focus such as Silicon Badia (tech based open-ended¹⁵ fund), and Dash (also tech based but private close-ended¹⁶ fund). Hikma is another example of a close-ended private fund based in Jordan. Hikma has a wider range of investment ticket size US\$250,000-US\$3 million focused on pharmaceutical companies but does not focus on Jordan as a core market. The regional VC market is concentrated in the UAE, Lebanon, and Egypt with some who source deals from Jordan in the US\$1 million – US\$33 million range. Regional VC funds include BECO, MEVP (Middle East Venture Partner), Iris Capital; Wamda, Jabbar Group, and iMENA. The supply of early stage equity finance in Jordan does not meet the demand across all industries, leaving many startups and SMEs to perish in the so called “valley of death” - the time when their own resources from friends and family are depleted and the point when they become viable enough to seek financing from the market (usually in amounts of US\$1.5 million and above).

Figure 3. Life Cycle of a Firm and Stages of Financing



Source: OECD.

¹⁵ An Open-end fund is a fund structured with no specific term life. An Open-end fund requires a capital contribution upon admission to the fund and use that capital use the capital to make investments on an on-going basis.

¹⁶ A Close-end fund is a fund with a specific life-time for example, 7-10 years, which may be extended at the discretion of the fund manager and with consent from the shareholders. A Close-end fund requires a capital commitment, which is subsequently drawn upon over time and given their specific life period they have a limited time to make new investments before the fund closes.

Table 3. Current Sources and Type of Financing in Jordan according to Firm Life Cycle

	Idea	Startup	First/Early Stage	2nd Early Growth/Scale	3 rd Growth/VC	Pre-IPO+
Credit Guarantees & commercial credit				JLGC	JLGC OECD	Commercial Banks, Investment Banks
Equity financing			The below are looking to raise new Capital in this space for Jordan: Oasis500 Dash	All the below are regional funds who could potentially invest in Jordan: Badia/ATH MEVP Hikma Ventures Wamda BECO Iris Capital Arzan	Badia/ATH Wamda MEVP Hikma Ventures	Regional PE funds

18. **There are current efforts to raise new early stage equity funding by a few entities who are not finding enough capital in the market.** This is especially the case for non-ICT sectors. Oasis500 is seeking funding for a new US\$20 million fund, which will make investments up to US\$300,000 per deal focused on companies in the creative industry¹⁷. Silicon Badia is in discussion with Endeavor Jordan and the United States Agency for International Development (USAID) to develop a US\$10 million program to help support the next generation of asset managers by training and investing in their products; they are also in the process of raising a US\$50 million Financial Inclusion Fund covering the MENA region. The USAID MENA II fund average capital is US\$5 million and with additional capital would be able to increase its impact in the Seed stage. All these potential funds are looking to leverage additional capital to be able to operate.

19. **Table 4 provides an estimate of potential investments the proposed project could fund as soon as it becomes operational during the first year.**

Table 4. Funds Currently Seeking to Leverage Additional Capital for Jordan (Current Potential ISSF Pipeline*)

Fund Name	Fund Size (US\$, millions)	Proposed Amount the Project could Put in Immediately (US\$, millions)
Oasis500 Seed fund	20	5 (first round another 4 if they raise enough to bring it to US\$20 million)
Silicon Badia/Endeavor Financial Inclusion Fund	50	5 (for Jordan investments)
Financial Inclusion Fund	10	5
Total		15

* This is the expected pipeline, funding will only be provided after review by the project fund and found acceptable by the Investment Committee

¹⁷ The United Kingdom defines the Creative industries as “those activities which have their origin in individual creativity, skill and talent and which have a potential for wealth creation through the generation of intellectual property” (The British Council). Examples include, design, architecture, media, film, music, and so on.



B. Higher Level Objectives to which the Project Contributes

20. **The proposed project is in line with the Jordan Country Partnership Framework FY17-22 (Report #102746) as discussed by the Board of Executive Directors on June 15, 2016.** Pillar 1 of the CPF, “Fostering the conditions for stronger private-sector-led growth and better employment opportunities for all”, aims to catalyze the private sector’s role as an engine of growth, moving away from a model in which the bulk of formal employment is created in the public sector. In particular, this project is related to the CPF strategic Objective 1.3: “Improved access to finance and skills development”, which seeks to strengthen the capacity of banking and microfinance institutions to provide finance for MSMEs and to offer new products in underserved markets – focusing specifically on female and young entrepreneurs. The proposed project also fits within the Government Executive Development Plan (EDP) 2016-2018 as well as with the Corporate Financial Inclusion (FI) Strategy and the Forward Look 2030 which states that “the WBG will need to leverage the full range of its capabilities to expand and create markets where private capital has been less than forthcoming.”

21. **The proposed project fits squarely into the MENA Strategy pillars of Renewing the Social Contract and Regional Cooperation.** It facilitates entrepreneurship growth and inclusion for underserved early stage companies by leveraging private sector investors through public-private (P-P) arrangements to address a funding gap that the private market alone cannot as yet fulfill. In this way, the project contributes to Renewing the Social Contract by bringing private sector participation into private sector job creation as well as contributing to a change in culture toward risk and fostering learning from failure. The proposed project also promotes linkages to Regional Cooperation as entrepreneurs and investment funds seek markets and partnerships that go beyond national ones particularly legal residents from neighboring countries such as Syria and Iraq who can expand their Jordanian businesses to their home countries when the situation stabilizes. These skills and behaviors also play a critical role in building greater resilience to all sorts of economic and social shocks that may come.

C. Relationship to other World Bank Projects

22. **The World Bank Group (WBG) is implementing an extensive and holistic program to support MSMEs and create jobs in Jordan, including IBRD policy and investment lending, advisory services and technical assistance under the joint World Bank-IFC MENA Regional MSME Technical Assistance Facility as well as CGAP¹⁸ technical support (Annex 6).** All these projects are mutually reinforcing activities that will ensure better impact on the ground. The overall World Bank program has been designed with GOJ and private sector players, with the Central Bank of Jordan as coordinating agent. The WBG program includes the development of an SME credit lending facility through commercial banks that continues to be supported by regional development funds. The financial sector reform program includes key regulatory reforms on microfinance and asset based lending, the reform of the guarantee fund to support SME finance, the launch of the most advanced private credit bureau in MENA, and extensive technical assistance and funding to banks and micro finance institutions (MFIs) for MSME finance. The World Bank financial support program also has a strong component on entrepreneurship and SME capacity building. The proposed project will facilitate financing and support to early stage companies that are currently under-served completing the set of solutions that the World Bank can provide to MSMEs. The proposed project may also be complemented by activities under a Regional Initiative to Promote Financial Inclusion to be implemented jointly between the World Bank and the Arab Monetary Fund through a proposed

¹⁸ The Consultative Group to Assist the Poor (CGAP).



project under the MENA Transition Fund. In addition, the project can provide a means to demonstrate the practical benefits to be derived from implementing the structural benchmarks included in the IMF Extended Fund Facility (EFF) to Jordan. The structural benchmarks linked to insolvency and secured transactions, once implemented, shall enhance the enabling environment for access to finance through business exit and utilizing movable assets as collateral from MSMEs.

23. **The Trade and Competitiveness (T&C) GP also has an active number of activities in Jordan as part of the Economic Opportunities for Jordanians and Syrians Program for Results (P4R), approved by the World Bank Group Board of Executive Directors on September 27, 2016.** The T&C work program aims to (a) develop entrepreneurship opportunities for Jordanian and Syrian businesses, following implementation of business to business meetings and entrepreneurship networking activities, and measuring the impact of these activities over time; (b) build linkages between Jordanian businesses and foreign investors at free zones by facilitating networking initiatives between potential suppliers and key foreign investors; (c) reforming business registration process in Jordan. The proposed project will support the overall development of the entrepreneurship ecosystem in Jordan to support all legal residents seeking to create and grow businesses in Jordan. The proposed project, will enable beneficiaries of T&C networking programs to benefit from awareness, investment-readiness, acceleration, and financing instruments. The proposed project will extend support to specific sectors that are found to be competitive based on the T&C P4R analytics (for example, agribusiness and garment), and work on offering focused support through acceleration and firm-level technical assistance services. The project team will collaborate with T&C teams during implementation to synergize between activities.

International Finance Corporation

24. **The project was designed by a team composed of World Bank staff from the Finance and Markets, and Trade and Competitiveness Global Practices, and IFC staff from the VC Investment Unit.** The project does not pose a risk of crowding out IFC and plays a complementary role to IFC's operations in early-stage equity investments. Notably, IFC Startup Catalyst—a recently launched global program designed to invest in commercially minded seed funds, accelerators, and incubators—has, as one of its first concept investees, a combined accelerator and VC structure based in Cairo. Also of interest is IFC's broader venture investment program, including its investments in regional venture funds (for example, Wamda), and, over time, direct equity investment opportunities in start-ups across MENA (such as souq.com). The IFC does not rule out investing in a seed or early-stage VC fund related to the proposed project once those funds prove their performance relative to global benchmarks. The proposed project therefore serves as a bridge between the inception and early development stage of the start-up and acceleration ecosystem until it can receive IFC support. Thus, the project is helping build a potential future investment pipeline for IFC. The World Bank and IFC will work collectively to leverage their tools and expertise to help build and complete sustainable innovation ecosystems in the MENA Region by helping connect them to more developed ecosystems in other parts of the world.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

25. **The project's development objective is to increase private early stage equity finance for innovative small and medium enterprises ("SMEs").**



26. **Innovative:** Innovative in this context applies the Oslo Manual definition 3rd edition 2005¹⁹ which states innovation means a new or improved products, goods or services; new or improved processes and/or business models.

27. **Small and Medium Enterprises** are defined as formally established innovative companies (new or existing) less than 5 years old.

B. Project Beneficiaries

28. **Project Beneficiaries:** The key equity investment beneficiaries will be SMEs with the potential for fast growth while entrepreneurs seeking to create a business or prepare their existing company for investment will be beneficiaries of the deal flow support activities. Indirect beneficiaries will be potential private risk capital agents who will leverage their capital through co-investing partnerships. Other Indirect beneficiaries will be the critical infrastructure entities of the innovation and investment ecosystem that provide support and financing to entrepreneurs such as VC funds, Angel funds, incubators, accelerators, mentoring programs, and business development and Investment readiness services.

C. PDO-Level Results Indicators

29. **The PDO will be measured through the following Results Indicators:**

- (a) Private capital mobilized through the project (Amount USD)
- (b) Beneficiary companies receiving financing through the project (Number)
- (c) Beneficiary companies that introduced a new product or process (Number)

30. **The project is expected to contribute to a large number of indirect jobs due to spillover effects on the supply and value chain; however, this is beyond the monitoring scope of the project.** Direct jobs created will be positive but are not expected to make significant economic impact, as such the number of jobs created is not included as a core indicator, however, the project will track the number of new jobs by gender and by age that are directly created by the project beneficiaries to assess the job creation impact

¹⁹ According to the Oslo Manual (3rd Edition, 2005), the various types of innovations are defined as follows:

- (a) Product innovation: the introduction of a good or service that is new or significantly improved with respect to its characteristics or intended uses. This includes significant improvements in technical specifications, components and materials, incorporated software, user friendliness or other functional characteristics. Product innovation can utilize new knowledge or technologies, or can be based on new uses or combinations of existing knowledge or technologies.
- (b) Process innovation: the implementation of a new or significantly improved production or delivery method. This includes significant changes in techniques, equipment and/or software. Process innovation can be intended to decrease unit costs of production or delivery, to increase quality, or to produce or deliver new or significantly improved products.
- (c) Marketing innovation: is the implementation of a new marketing method involving significant changes in product design or packaging, product placement, product promotion or pricing. Marketing innovations are aimed at better addressing customer needs, opening up new markets, or newly positioning a firm's product on the market, with the objective of increasing firm's sales.
- (d) Organizational innovation: the implementation of a new organizational method in the firm's business practices, workplace, organization or external relations. Organizational innovations can be intended to increase a firm's performance by reducing administrative costs or transaction costs, improving workplace satisfaction (and thus labor productivity), gaining access to non-tradeable assets (such as codified external knowledge) or reducing costs of supplies.



on women and youth (age 18 – 35 years). The project will also explore best practice frameworks on how to measure indirect job creation under such an operation and monitor these results to the extent possible. The target industries the project supports do not include sectors where Syrian refugees are allowed to work (Manufacturing and Agriculture) however, it is possible that the project draws entrepreneurs and/or investors from the community of legal Syrian refugees, and the project will track this as part of the broader M&E framework.

III. PROJECT DESCRIPTION

31. **This is a six-year project that involves the setting up of a private sector managed funding facility called the “Innovative Startups and SMEs Fund” (ISSF) which will make investments in innovative startups and early stage SMEs leveraging private sector funds.** The ISSF will also support the entrepreneurship ecosystem to generate a viable deal flow of startups. The Jordan Loan Guarantee Corporation (JLGC) will be responsible for legally setting up the ISSF and hiring a private manager who will manage the ISSF activities and report to the JLGC. The JLGC is a private corporation under the supervision of the Companies Comptroller who oversees all private companies. Contribution to the capital of the ISSF will be provided by the World Bank loan and an additional amount in the form of co-financing will be provided to the ISSF by the Central Bank of Jordan (CBJ)²⁰.

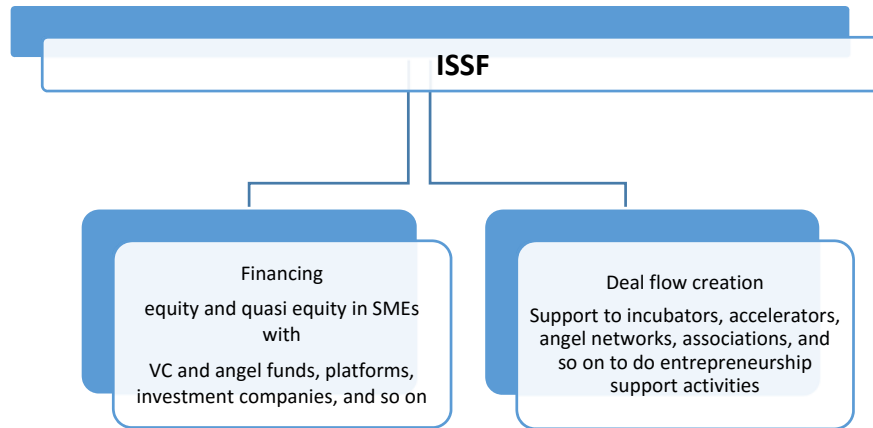
32. **Evidence from a World Bank project in Lebanon and other similar models in Scotland and the U.K. have shown that private investors can be attracted to contribute capital to companies that are at an earlier stage if they can share the risk and expand their portfolio.** The other incentive that private investors look for when investing in a startup is the availability of follow on financing for the company throughout its development stages and a strong efficient ecosystem that can help create good quality startups.

33. **By increasing the supply of financing to startups, the ISSF seeks to create a critical mass of successful ventures to make a demonstration effect.** A demonstration effect of successful ISSF financing is expected to encourage more private investors to consider investing in this space. Financing alone is not enough and support to the ecosystem to create a better quality and quantity of viable startups for the deal flow is necessary to address a coordination failure (a situation where a proper VC industry would not develop due to a lack of essential services and support to create investible SMEs). This project model has been tested in various countries that include the Singapore Spring Seeds Capital Fund, Scottish Enterprise Fund, and the U.K. Business Angel Co-investment Fund. Lessons learned from these funds as well as similar World Bank operations in other countries (Armenia, India, Mexico, Lebanon) are that addressing the gaps in the ecosystem to properly turn out and support viable innovative enterprises is critical to the success of the investment fund.

²⁰ The CBJ will commit US\$48 million to the ISSF Capital during the entire life of the ISSF. This would be equivalent to an investment of \$13.88 for the life of the WB project (six years)



Figure 4. ISSF



Governance and Role of Key Stakeholders in the ISSF

34. **The JLGC will hold the shares in the ISSF on behalf of the Government and when the ISSF is liquidated, the proceeds will be returned to the Government.** A high level Monitoring Committee (MC) composed of the Ministry of Planning and International Cooperation (MOPIC), the Central Bank of Jordan (CBJ), the Ministry of Finance and the Ministry of Industry and Trade will have a monitoring role in the project. The JLGC will report on an annual basis to the MC. The Government or the MC will not be involved in the operations or administration of the ISSF.

35. **The JLGC will be responsible for setting up a Board of Directors (BOD) for the ISSF.** The BOD will consist of no more than 7 qualified members with equal voting rights. Board members will be from the private sector and selected in accordance with criteria included in the Project Operations Manual (POM) and non-objection of the World Bank. The BOD in accordance with the Companies Law is responsible for deciding on investments that are presented to it by the ISSF investment committee (IC). The Board cannot decide on an investment not recommended to it by the IC. The Board will also delegate to the IC responsibility for investment selection/investment strategy and divestment to the investment committee and project activities management and operational decision-making to the ISSF manager who will report to the BOD. The BOD will maintain oversight on the soundness of implementation, company management and reporting in accordance with Jordanian law and the criteria in the POM. The CBJ will not be a member of the Board and will not have a role in the ISSF other than providing capital and will take the position of a silent partner (no veto, non-voting shares).

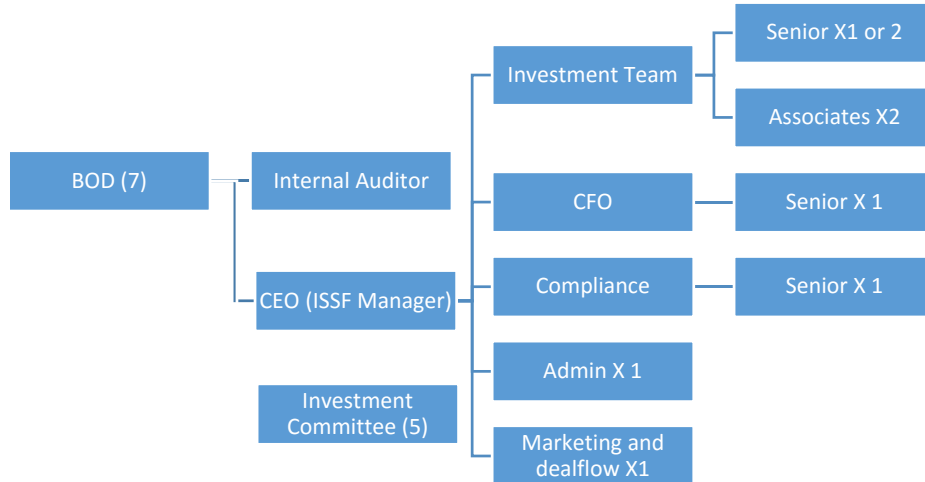
36. **The ISSF manager will be responsible for hiring the ISSF staff, putting in place its operational and investment strategy, and providing the required monitoring and reporting on project indicators, as well as on financial management, procurement, and safeguards in accordance with the project criteria indicated in the POM.** The ISSF Manager will be evaluated and selected based on criteria established by the World Bank indicated in the POM. All ISSF staff must be experts from the private sector.

37. **The ISSF manager will propose for approval by the BOD, members for an independent Investment Committee (IC) based on criteria included in the POM and non-objection by the World Bank.** The ISSF manager will be part of the IC. The BOD will elect one of the BOD members to Chair the IC with the exception of the JLGC who cannot chair or be involved in the IC. The JLGC will not have any role in the implementation of the activities or selection of investments. The IC will sanction investments and exits



proposed by the ISSF investment team as delegated to it by the BOD. Additional details on the role of each stakeholder is provided in Annex 2.

Figure 5. Indicative ISSF Organizational Chart



B. Project Components

38. **Project funds will be distributed in three areas: (a) financing to innovative startups and SMEs including incentives to partner investors through investment support, (b) support to ecosystem providers to help create the deal flow of viable enterprises; and (c) project management.** Table 5 shows how the overall ISSF Capital will be roughly distributed over 6 years combining project funds and funding from the CBJ contribution²¹. However, it should be noted that allocations are flexible to accommodate changes in market demand and costs. The ISSF manager may propose changes to the budget based on the appropriate needs. Should the amount under one activity not be completely deployed, the remaining balance may be re-allocated to another activity.

Table 5. ISSF Activities and Disbursements during the World Bank Project Life (6 years)

Activity/Component		(US\$, million)
1.	Financing to SMEs including investment support	53.5
2.	Deal flow creation	6.25
3.	Project Management, Coordination, M&E	4
Total		63.75*

*Includes WB loan and funding from the CBJ contribution and does not reflect the full Capital available at the ISSF

Component 1: Equity/Quasi Equity Financing Program (US\$44.75 million Bank loan/total ISSF Budget US\$53.5 million)

39. **Under this activity, the ISSF is expected to invest US\$50 million in approximately 200 companies plus US\$3.5 million to be provided as investment support to partner investors.** These figures are estimates and may change depending on market demand. Investments in startups will be balanced

²¹ The CBJ contribution will be phased over the entire life of the ISSF i.e. 12 years. An amount of US\$13.88 million will be disbursed during the World Bank project life.



between the three high risk enterprise stages roughly categorized as: Seed (investment ticket size (ITS) below US\$280,000); early stage (ITS US\$280,000 – US\$750,000); and VC (ITS US\$750,000 - US\$3 million). Investments in SMEs may be in the form of equity or quasi equity instruments such as convertible notes²² and other forms of concessional debt that partner investors or intermediaries judge as necessary for a company to succeed. Details on investment strategy and equity/quasi equity tools are available in Annex 2.

40. **Investments will be opportunistic across all sectors (sector agnostic).** However, it is expected that investments will be primarily in technology, media, telecom and service sectors with some in agribusiness, pharmaceuticals, water, and green energy. Investments will not involve real estate, construction, or heavy manufacturing.

41. **The ISSF investment strategy will use a combination of direct investments in SMEs alongside private investment funds seeking to leverage financing on a specific deal, and indirect investment in SMEs through funds (as a shareholding partner).** Selection criteria for all investments is detailed in the POM. Table 6 shows an indicative investment plan over the first 6 years that may be subject to change depending on market needs as long as the ISSF stays within the broad project development parameters. Having the option to invest directly in SMEs and indirectly through funds provides the ISSF flexibility to tailor its engagement according to the market and allow all potential investors to play a role.

Table 6. Broad Investment Parameters of the ISSF over the Project Life (6 years) *

Type	Indirect Investments			Direct Investment	Total
Stage	Seed (below US\$280,000)	Early Stage (US\$280,000- US\$750,000)	Venture US\$750,000 - US\$2 million	Early Stage and Above	
ISSF Allocation	US\$7 million	US\$14 million	US\$24 million	US\$5 million	US\$50 million
Sectors	Opportunistic with focus on Tech, Media, Telecom, Agricultural, Pharmaceutical, and energy				
Players	Accelerators / Incubators + Seed Funds	Accelerators / Incubators + Angel Funds / networks	Early stage and VC Funds	Co-investment with incubators/accelerators, Angel and VC funds	
Size of Opportunity	Fund Size US\$2 million-US\$5 million	Fund Size US\$5 million – US\$15 million	Fund Size US\$15 million +	Investment raising a total of US\$500,000 - US\$1.5 million	
ISSF Support	Up to US\$1.5M million per fund	Up to US\$3.5M million per fund	Up to US\$5.5M million per fund	Investment of US\$200,000- US\$500,000 per startup	
Target number of funds	3-4 funds	3-4 funds	3-4 funds	N/A	
Private leverage (approximation)	US\$2 million per fund (total US\$7M)	US\$7 million per fund (total US\$24M)	US\$9.5 million per fund (total US\$33M)	US\$250,000 - US\$1 million per deal (total US\$7.5M)	US\$71.5 million
High Level Criteria for each investment**	No more than 40% of the total fund allocation.	No more than 30% of the total fund allocation.	No more than 30% of the total fund allocation.	Co-investing only; no more than 50% of each round.	
Number of companies (approximation)	70-80 companies	60-70 companies	30-40 companies	10 - 15 companies	150 - 200
Total Allocation	US\$14 million	US\$38 million	US\$57 million	US\$12.5 million	US\$121.5 million

* This plan is indicative and subject to change depending on market needs.

** Please refer to Annex 2 for more details on the high level criteria and direct and indirect investment guidelines.

²² A Convertible Note is an amount provided to a company in exchange for equity shares in the company that is later repaid back as a loan when the company starts to generate revenues.



42. **An approximate US\$70 million²³ in equity investment is expected to be leveraged from private investors either as partner investors in funds (indirect investment) or as equity co-investors in deals (direct investment).** It is worth noting that equity investors improve the business and financial management of an SME which would render it more bankable, and allowing it to leverage additional financing from credit institutions down the line. Measuring this however is beyond the scope of the project. Acceptable co-investment partners or funds for the ISSF include Seed (Angel) funds, early stage funds and VC funds, crowdfunding platforms, investment companies and other institutional investors who meet the project criteria as indicated in the POM.

Investment Support

43. **The high transaction costs related to taking a startup to growth stage is one of the main discouraging factors for investors.** The effort and costs are not the same for those incurred for a more mature SME. To provide an incentive to partner fund managers and co-investors to invest in innovative startups the ISSF will provide partner funds, in addition to capital, with an amount (non-reimbursable) to cover costs related to supporting the growth of the innovative startup. For example, the standard management fee that will form part of the capital investment covers standard fund operational costs including deal-sourcing, due diligence, investment management, marketing, and networking. However, the additional costs related to an innovative startup go beyond that and focus on ensuring that investees are able to meet the various growth challenges related to their sector/innovation. Investment support activities may include professional financial, legal, and administrative costs of registering/maintaining/updating patents, field testing a product in a new market, and back office support (accounting, legal, marketing, administration) which small companies usually do not have.

44. **The total investment support amount provided for each fund will be subject to availability of funds and will be based on a proposal to be submitted by the fund manager to the ISSF.** Applications will be approved by the ISSF Investment Committee who will review the proposal for relevance.

Component 2: Deal Flow Creation Support (US\$3.125 million Bank loan/total budget US\$6.25 million)

45. **The quality and number of viable investments made by the ISSF will depend on a strong ecosystem able to generate entrepreneurship opportunity across Jordan and channel it into more viable startups.** This includes programs that include outreach to entrepreneurs from lagging regions, underserved industries (other than ICT), and underserved groups like women entrepreneurs. For young educated graduates, resources to help foster their creativity and innovation is an essential starting point when considering starting their own ventures, or joining an entrepreneurial team. For more experienced professionals starting new companies, they have rarely been through the fundraising and commercialization process. Thus entrepreneurship support institutions must be able to provide them with the appropriate type of support that will make companies that are attractive for investors.

46. **Under this activity, the ISSF will support at least 825 entrepreneurs/SMEs to become investor ready, as well as improve the quality and variety of services provided by intermediaries and networks dedicated to the creation of deal flow in Jordan.** The objective is to bring 125 viable deals to be considered for financing by the ISSF. As part of project management and administration, the ISSF will

²³ This is subject to change depending on the number and size of funds the ISSF will invest in.



assess the ecosystem development annually and identify priority areas for focus in the following year.

47. **The ISSF will contract/outsource to one or more professional service providers (such as accelerators, incubators and business development support entities), in accordance with criteria in the POM, and cover their cost to implement the following deal flow creation activities:**

- (a) **Incubation/Acceleration programs.** These programs will target brand new ventures (or teams that are planning a venture). The programs will accelerate 10-12 cohorts of entrepreneurs; each cohort will include 15-20 ventures/teams. Acceleration programs typically feature time-limited support (four to six months) comprising programmed events, training and intensive mentoring to test the viability of a business model/product often utilizing lean start-up methodologies, an application process that is 'in principle' open to all, yet highly competitive, and cohorts or classes of startups rather than individual companies. They mostly focus on small teams, not individual founders and may start with idea/concept development (hackathons and competitions) followed by boot camp training and specialized support, and conclude with a periodic graduation with a Demo Day/Investor Day. Programs will be sector agnostic and should target all regions and governorates and exhibit a specific effort to reach women entrepreneurs.
- (b) **Investment Readiness training and business development services for young enterprises seeking capital and established SMEs looking to substantially increase growth.** This support targets ventures already operating, which require specific assistance to become ready/eligible for investment through the ISSF. Ventures seeking investment from the ISSF may come from startups that recently graduated from an acceleration program who will need to go through an investment readiness (IR) program and/or existing SMEs who are looking to expand through an innovative product or process and require more individualized business development services (BDS).
 - (i) Investment Readiness training has similarities to acceleration programs, although they are more focused, and encompass how the investment process works, how to appeal to investors, identifying weaknesses in current business model and 'pitch', and is provided to groups online and face to face and includes coaching and pitch events.
 - (ii) Business development services will incorporate an assessment of applicant SME performance and growth potential, then will provide/find specialist consulting support to address the impediments to the investment attraction plans identified in those applicants with the highest potential. The BDS program will target 75 growth SMEs over the timeframe of the project. To ensure that only serious SMEs receive the support, the BDS program will partially fund the costs (up to a maximum amount of US\$20,000 per SME) with the SME covering the remaining expenditures from other sources.
- (c) **Develop Angel investor networks.** Develop at least two Jordanian business angel groups, by supporting new group formation; network design and establishment; group manager training and mentoring; angel member training and mentoring; and/or support system-level activities benefitting all Jordanian angel networks. Support to developing women business angels will be

encouraged (see Box 1).

Box 1. The Role of Women Angel Investors in Female Entrepreneurship

Given the impact the project is seeking to have in increasing the number of female entrepreneurs, the ISSF aims to work with stakeholders to identify a program that can support women Angel investors. Discussions with MIT’s Arab Business Forum, which conducts the largest regional business competition, highlighted that while there are many women with innovative business ideas who win competitions, very few of them move on to access seed equity financing. This activity will play an important role in supporting women entrepreneurs. Increasing the number of women Angel investors can also increase women’s access to capital.

Women angel investors play a key role in attracting and investing in a higher percentage of women-owned startups than male-dominated angel investor groups. A survey of angel groups in the United States conducted by Sohl and Hill found that more than 30 percent of the firms presented for consideration in the women-dominated angel groups (at least 25 percent women members) were owned by women compared to an average of 12 percent to 13 percent for male-dominated angel investor groups. Similarly, Sohl and Hill found that women-dominated angel investor groups devoted a higher percentage of their investments to women-owned firms (13.3 percent vs. 6.6 percent). They also found that like all angel investors, women investors in addition to financial incentives, were also motivated by the desire to gain access to attractive investment opportunities, and a desire to co-invest with experienced investors. However, women as opposed to all investors in the survey were also motivated by social responsibility in investing, the desire to assist women entrepreneurs to succeed, and the desire to increase access to capital for women entrepreneurs. A Dubai-based women angel investor platform called WOMENA launched in 2014 as well as other thriving women Angel investor networks in the U.S. may be good potential partners for ISSF to consider in building women angel investors in Jordan.

48. **Table 7 provides estimated amounts that may be allocated for each activity over the project life.** These amounts are subject to change and reallocation by the ISSF management team based on market costs and needs.

Table 7. Ecosystem Support Activities for Deal Flow Creation over the Project Life (6 years)

Nature of Support	Ecosystem Element	Target	Numbers	US\$, millions
Incubation/Acceleration programs	Deal flow (Startups)	New entrepreneurs and their teams with promising concepts across industries and governorates	150 entrepreneurs/teams	2.5
Investment readiness training and BDS grants for established high growth potential SMEs	Deal flow (Existing businesses)	Young but established ventures, and established SMEs who have the prospect of significant growth but need support to address internal gaps	600 (investment readiness training), 75 BDS recipients	2.75
Angel investment capacity building	Ecosystem building/deal-flow	Building knowledge, investment capacity and involvement in angel investment activity	2 groups	1.0

Component 3: Project Management, Coordination and Monitoring and Evaluation (US\$2 million Bank loan/total budget US\$4 million)

49. **Funds under this activity will cover the ISSF project management costs over the project life.** The ISSF will be the de facto Project Implementation Unit (PIU). Costs of the ISSF include management and consultancy fees and operations and administrative costs for the management and supervision of the



project investment and deal flow activities. Project funds will also support the ISSF’s costs for the following: training and capacity building activities; marketing; conducting ecosystem assessments and analysis; setting up a coordination mechanism among related national and international programs; outreach specifically to the regions (website, conferences); citizen engagement activities; monitoring and evaluation (M&E); safeguards monitoring and review; legal; accounting, auditing, and financial management.

50. **Project funds will also cover costs incurred by the JLGC in its role as the implementing agency including:** the setting up of the ISSF, managing the designated account, conducting the necessary fiduciary and safeguards supervision including grievance redress, and the hiring of a consultant to ensure overall compliance by the ISSF of its reporting obligations, to the MC and the World Bank.

C. Project Cost and Financing

51. The proposed project is a US\$50 million World Bank Investment Project Financing with a front-end fee of 0.25 percent. A Commitment fee of 0.25 percent is charged on IBRD lending undisbursed balances and begins accruing 60 days after the Loan Agreement is signed. An additional US\$48 million in co-financing will be provided by the CBJ of which US\$13.88 million will be transferred during the World Bank project life (6 years) while an additional US\$35.125 million will be phased in after the World Bank project closes. Retroactive financing from the loan amount will be allowed up to an aggregate amount not to exceed US\$500,000 equivalent for payments made prior to the date of effectiveness for eligible expenses for the setting up of the ISSF and selection of the project manager.

Table 8. Project Financing Table

Project Components	Project cost US\$M	IBRD Financing	Counterpart Funding During WB Project’s Life	Counterpart Funding after Closing of the WB Project
Total Project Costs				
1. Equity/Quasi Equity Financing Program	53.50	44.75	8.75	
2. Deal flow Creation Support	6.25	3.125*	3.125*	
3. Project Management, Coordination and Monitoring and Evaluation	4.00	2.00	2.00	
Front end Fees		0.125		
Total Financing Required		50.00	13.875	34.125

*This number is rounded to 3.13 in the Datasheet

D. Lessons Learned and Reflected in the Project Design

52. **The project draws on lessons learned from a similar project in Lebanon called “Supporting Innovative SMEs (iSMEs)” (P127306), and from the design of the Morocco “Financing Innovative Startups & SMEs” (P150928) approved by the World Bank Group Board of Executive Directors on October 31, 2012, and March 10, 2017, respectively.** The iSME project offers concept development grants to entrepreneurs up to a maximum of US\$15,000 each, and equity financing up to US\$1.5 million per deal directly into SMEs in partnership with other private investors. A mid-term review of the implementation of the iSME highlighted key lessons that the project design considers:

- (a) The concept development grants are an important source of deal flow for the investments. The grants act as a first filter against bad investments.



- (b) Grant proposals that come from entrepreneurs linked to an incubator, accelerator, university program or other support entities are of better quality than proposals that are brought by entrepreneurs on their own.
- (c) The review and selection process of grants relative to the small amount is taxing and time consuming. It is better to outsource this to ecosystem providers who can do it based on the project criteria.
- (d) There is a financing gap between the time a startup receives a grant and the time they can actually be ready for an investment (between US\$15,000-US\$20,000 and US\$200,000). Quasi equity financing tools such as Convertible Notes or other forms of financing such as soft loans are needed to ensure the survival of the startup until it can get its first capital round.
- (e) Deal flow is very important to the success of the financing. The project should look into partnering, supporting and/or investing in entities that work on creating and supporting startups until the time they become attractive to an investor. Activities that such entities can provide should not only include startup funding like matching grants and soft loans but also non-financial support such as mentoring, coaching, access to markets, and investment readiness training.
- (f) Private investors like leveraging financing on a deal as it provides them the opportunity to further expand their portfolio and share risk. However, the process for review and negotiation for each investment can be slow and time consuming and cause delays in disbursements. Having the option to also invest in funds brings the added benefit of a quicker more streamlined investment selection process, an opportunity to leverage a larger amount from private investors who prefer to invest in funds, as well as facilitating quicker project disbursements.
- (g) Flexibility is key. Flexibility should be maintained with respect to the selection of types of partners, funds, co-investors, SME sectors, and eligible expenditures (with the exception of ineligible safeguards activities/expenditures). Project activities and investments should be conducted in accordance with best international investment practices, to attract as many investors as possible into the market.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

53. **The ISSF Fund will be created as a Private Shareholding Company (PSC) under the Jordanian Companies Law of 1997 Law No. (22).** In accordance to its status under the Law No. (22), the ISSF will be subject to the supervision of the Companies Comptroller which supervises all private corporations. The Companies Law does not directly regulate the activities of PE and VC funds. It only provides a general legal framework for the incorporation and corporate governance of the companies registered under the above Law. Under the Companies Law, the constitutional documents that govern the relationship of partners or shareholders in a Jordanian company are filed with the Companies Control Department at the Ministry of



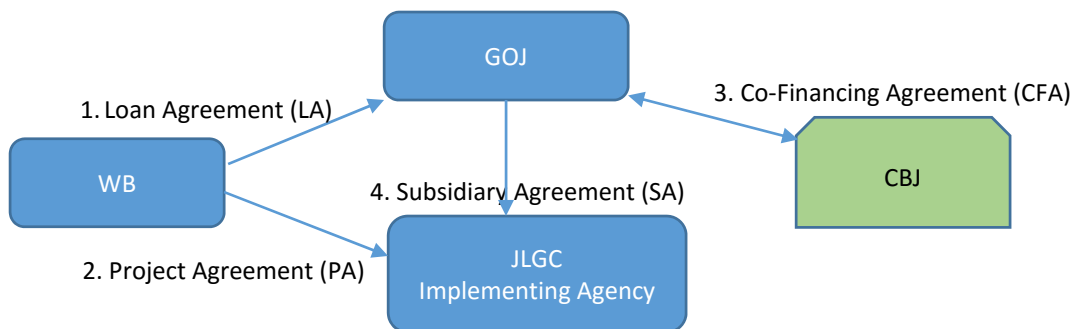
Industry & Trade. The Companies Law also prescribes specific rules in relation to the corporate governance of companies registered under the law. The Companies Comptroller is responsible for monitoring the implementation of the Companies Law and managing the Companies Control Department at the Ministry which is the corporate registry of Jordan.

54. **In Jordan, the typical local Fund Legal Structure is not available due to certain limitations in the Companies Law.** While the limited partnership corporate form is in theory available through a Limited Partnership (LP) or a Limited Partnership by Shares (LPS), there are certain requirements in the Companies Law that make it impractical, if not impossible, for the implementation of a typical Fund Structure (LP or LPS). Some of these limitations include: (a) the requirement for a General Partner (GP) in a LP to be a natural person as opposed to a corporate entity, (b) requirement for two GPs in an LPS, and (c) requirement for a GP of an LPS to contribute 30 percent of the total fund value. Thus, funds that want to be set up using an exclusively Jordanian corporate structure (“Local Funds”) take the form of a private shareholding company (a “PSC”) which is a closed limited liability company that allows for the establishment of classes of shares. Alternatively, which is the case for all current fund structures in Jordan, funds register as an offshore LP with a GP presence in Jordan.

55. **To encourage private sector participation and to promote transparency and commercial implementation, the ISSF will be implemented through the JLGC which will act as the local sponsor of the project.** The legal agreements that will be signed to make the project effective are as follows:

- (a) The Ministry of Planning and International Cooperation (MOPIC) will sign the Loan Agreement (LA) and receive the World Bank loan on behalf of the Government of Jordan (GOJ) who will be responsible for repayment of the loan to the World Bank;
- (b) The World Bank will sign a Project Agreement (PA) with the JLGC as the entity responsible for implementing the project in accordance with the LA and POM.
- (c) MOPIC will sign a Co-Financing Agreement (CFA) with the CBJ with regards to the Co-Financing that the CBJ will provide to the project; and
- (d) MOPIC will sign a Subsidiary Agreement (SA) with the JLGC as the implementing agency.

Figure 6. Legal Arrangement

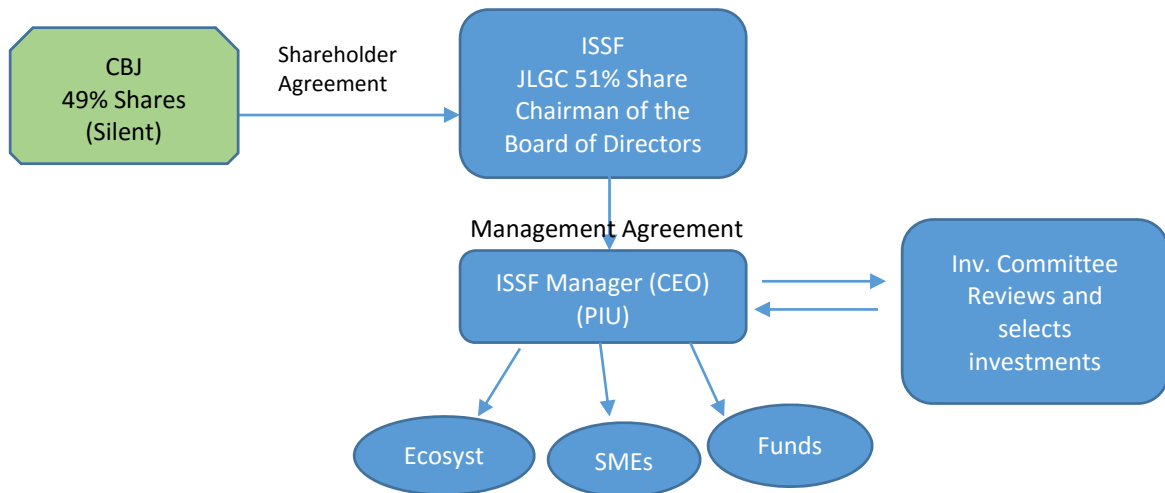


56. **The JLGC will be legally responsible for establishing the Fund, and will be the Executive Board Member and Executive Board Chair responsible for supervising the ISSF and ensuring implementation in line with the requirements of the World Bank as indicated in the POM.** The JLGC will hire a qualified manager from the private sector who will be responsible for implementation of the project activities,



monitoring and evaluation, fiduciary and safeguards management and reporting. The JLGC is the implementing agency vis-a-vis the project loan and will be responsible for ensuring that all fiduciary management and reporting done by the ISSF is properly implemented and reported to the World Bank, whereas the ISSF will be the PIU and will be responsible for implementation of all activities, M&E and project reporting to the World Bank.

Figure 7. Institutional Implementation



57. **The JLGC will put in place the necessary controls to ensure that the implementation of the project is subject to strict independent private sector-led oversight and a transparent and professional investment strategy.** These include the establishment of a predominantly private sector Board of Directors and the establishment of an independent IC comprised fully from private sector experts who will decide on the selection of investments and sanction exits as designated to it by the ISSF BOD and in accordance with the POM. Both the BOD and IC structures will be selected based on criteria indicated in the POM and based on non-objection from the World Bank. A management agreement will be signed by JLGC and the selected Manager for the ISSF outlining respective responsibilities of JLGC as supervisor and the ISSF manager for managing investments and deal flow activities, and supplying the necessary information and reports to the JLGC. The legal and governance structure of the ISSF, including the criteria for selecting independent private experts as part of the Board of Directors and the IC, was approved by the Cabinet under resolution No (2283) dated March 19, 2017. A Board Decision taken by the Board of Directors of the JLGC at its meeting dated February 2, 2017 gives approval to the JLGC to set up the ISSF under the proposed structure.

Exit from the ISSF

58. **The World Bank loan repayment is not dependent on the returns and closure of the ISSF.** The CBJ has committed to provide US\$48 million to the capital of the ISSF in addition to the World Bank loan. As such, the ISSF will have a total capital of US\$98 million, enough to carry it for the duration of its life (12 +2+1 years) allowing it to re-balance its investments and gain sustainability until all investments are exited/liquidated (early stage investments in Jordan take an average of 7-9 years before they can be exited). At the project Mid-term review (MTR), the WB, the MC and CBJ will review the performance of the ISSF in terms of its sustainability and of meeting the project objective and in consultation with



stakeholders from the Government and the private sector and decide on appropriate measures to take as necessary.

B. Results Monitoring and Evaluation

59. **The operational aspects of the M&E framework are presented in the POM.** Relevant tasks will include: (a) development of the M&E methodology and implementation plan and approach to be taken for the compilation of baseline data requirements as determined by the methodology that is adopted; (b) preparing semiannual and annual project monitoring reports, containing summary data on overall performance against targets; (c) annual M&E reviews including ensuring citizen engagement.

60. **The ISSF has the primary responsibility for tracking results of end beneficiaries, funds and intermediaries in accordance with the Project Results Framework and M&E guidelines specified in Annex 1 of this document and included in the POM.** In the case of Funds and ecosystem providers, they will be required to include in their proposals to the ISSF for funding, the mechanisms that they will use to conduct M&E. Funds and ecosystem intermediaries will present an M&E report twice a year to the ISSF. The ISSF will be responsible for submitting a consolidated M&E report to the World Bank semi-annually. Results monitoring will be based on qualitative and quantitative information collected from project beneficiaries, investors, and fund managers. The World Bank can provide M&E training to the ISSF and intermediaries as needed.

61. **As part of its results monitoring responsibilities, the ISSF will also explore how to measure indirect job creation and monitor these results to the extent possible, following best practice.** In addition, it is possible that the project will draw entrepreneurs and/or investors from the community of legal Syrian refugees for which the ISSF should track this as part of the project M&E activities.

C. Sustainability

62. **The project design incorporates a financial structure that balances various investment categories (angel/seed, early-stage, VC) which will support the sustainability of the operation.** Given the high risk investment category, the ISSF is not expected to generate an Internal Rate of return (IRR) typically sought by the private market, however, the proposed ISSF's investment strategy is balanced among the three categories of investments (Seed, early stage and VC) so as to enable positive aggregate returns that would sustain the management of the investments after the Project closes and cover the cost of the loan. Net proceeds (the Government's share of the returns) could then be used to compensate the government's cost of borrowing (Note, the investment strategy is for a development objective and the Government will not link returns from ISSF to the repayment of the loan since the returns are not guaranteed). Furthermore, the CBJ has committed US\$48 million to the ISSF which will sustain the ISSF beyond the project life and give the ISSF the chance to exit some investments and rebalance its exposure in others to maintain sustainability. Annex 8 provides financial projections based on various scenarios showing net return to the Government after all project costs are paid.

63. **Regardless of whether the Government earns a positive return or not entrepreneurs who were supported through the Project and then later failed, would have gathered a valuable education and experience to make better new companies as would the industry and its service agents (lawyers, accountants, and so on.).** This knowledge and capacity accumulation will contribute positively to economic growth.



V. KEY RISKS

64. **The overall project operation is rated as Substantial.** The risks rated as Substantial are related to macroeconomic environment, sector strategies, project technical design, institutional capacity. Fiduciary risk is rated High.

A. Overall Risk Rating and Explanation of Key Risks

65. **Macroeconomic (Substantial Risk).** Economic growth has been weak. It is projected to remain stagnant and exposed to shocks due to the instability in the region. The government has so far demonstrated an ability to manage these shocks. The macroeconomic stability objective is supported by several programs and donors including a US\$723 million extended arrangement under the Extended Fund Facility approved by the IMF Executive Board in August 2016, as well as the ongoing series of World Bank development policy financing.

66. **Sector Strategies and Policies (Substantial Risk).** Despite some recent government initiatives (establishment of credit registry, mobile payment system, startup guarantee fund, MSME lending support) startups continue to face challenges in starting and growing a business (high costs and regulations to be eligible to register as a business, lack of appropriate secured transaction framework and bankruptcy law to secure financing, and an inflexible business tax regime that discourages many businesses from entering the formal sector). Mitigation measures include flexible financing tools to lower the cost of starting and growing a business. Notwithstanding the mitigation measures until substantive reforms are made to attract entrepreneurs and investors on a sustainable basis the sector strategy risk is rated as Substantial.

67. **Technical design of the Project (Substantial Risk).**

- a. **Crowding out.** Very large government interventions can be counterproductive, crowding out private investment especially when opportunities for viable investments are limited. To mitigate this risk, the project will phase the ISSF's capital over time working in coordination with the CBJ. This approach will avoid flooding the market immediately with all the funding and allow room for private investors to participate as co-investor partners. In addition, to ensure maximum participation of the private sector, the proposed project incorporates a co-investment approach with the private sector allowing the private sector to leverage ISSF funding to share the risk in deals or to leverage ISSF capital for their funds thereby allowing all players to find a way to engage in this space.
- b. **Public involvement in Management and selection of investments.** Experience has shown that operational constraints on public agencies and the risk-averse attitudes among public sector staff, combined with their lack of direct knowledge and experience in entrepreneurship, makes it extremely difficult to manage sourcing and selection of deals with the proper speed and flexibility. Hence, it is better to use an approach that uses private sector management and decision making. The proposed project takes this into account, specifying that the project implementing agency will select on a competitive basis a private fund manager to select and manage investments through a predominantly private sector Board and investment committee.
- c. **Low pipeline of deals.** Investors indicate that there is no lack of innovative ideas but they do not see an adequate number of good quality business proposals and skilled entrepreneurs to invest in. This may affect the level of investments the ISSF may make



which will subsequently affect Project disbursement. To mitigate against this risk, the Project incorporates a deal flow creation component that aims to increase the quantity and quality of viable start-ups. The risk for this category is rated Substantial considering that there may be an initial period of low deal flow during the first 2 years of the Project until the deal flow activities make an impact.

68. **Institutional Capacity for Implementation and Sustainability (Substantial Risk).** The JLGC is a credit guarantee corporation and does not have the capacity to operate and manage equity investments. To address this challenge, the Project will hire through an international call for proposals a manager who is an expert in this field to manage the ISSF and hire the qualified staff needed for its operations. According to industry experts, there are qualified investment managers and officers in Jordan, around the world and in the MENA region able to manage the Project. The selection criteria of the ISSF manager and all terms, criteria and guidelines for Project implementation that the selected ISSF manager will adopt will be established by the World Bank and stipulated in the POM. During project preparation a qualified local consultant has been hired to work with the JLGC in preparing the terms of references, evaluation criteria, bidding process, and the POM based on terms of references provided by the World Bank team. The role and responsibilities of the JLGC will be clearly identified in the POM and all ISSF and JLGC staff will be provided training on World Bank guidelines and procedures in Financial management, procurement, safeguards, and M&E. Since the ISSF manager and team is still unknown this category is rated as Substantial.

69. **Fiduciary (High Risk).** The overall High Fiduciary risk reflects the FM risk.

- a. **Financial Management:** The ISSF and the JLGC do not have experience with World Bank financed (lending) projects. Financial Management staff in both entities might not be qualified to handle the FM and disbursement functions adequately. The project entails complex investment transactions and finance support to intermediaries, hence the FM system to be established and the internal controls to be implemented might be insufficient to ensure project funds are disbursed and managed for the project's intended purposes in an efficient and economic manner. With the multiple parties involved, the flow of funds might be disrupted somewhere in the flow process, whether as a result of legal issues or capacity constraints. The Financial Management risk is therefore assessed to be High. To mitigate the associated Financial Management and Disbursement risks (see Annex 2 for details), the Project will need to: (a) hire a qualified Financial Officer for the ISSF and a Senior Accountant for JLGC with complementary roles; (b) open a designated account to be managed by JLGC and sub-account to be managed by ISSF; (c) limit ISSF investments to approved investees per the POM based on decision by the ISSF BOD and/or Investment Committee in accordance to the guidelines in the POM; (d) reflect respective financing percentages for co-financing activities with CBJ; (e) prepare and adopt an FM chapter as part of the POM; (f) ISSF to purchase and install an accounting system; (g) prepare and submit unaudited interim financial reports and hire an external auditor to audit annual financial statements; (h) ISSF to hire an internal auditor; and (i) hire a consulting firm or extend external auditor's contract to report on ISSF compliance with POM selection criteria and investment procedures in relation to investments made. With the aforementioned risk mitigation risk measures in place, the FM residual risk will be "Substantial".
- b. **Procurement:** In view that procurement is triggered only for the selection of the project



manager and staff, procurement risk may have been rated as Low. However, given the importance of this selection and how it affects the whole implementation, the procurement risk is increased to “Moderate”.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

70. **Having a VC industry (including angel investors) can help increase the creation of startups and job creation.** Studies in the US where the VC market was initially started tested the contribution of VC on local metropolitan economies over 10 years. Samila and Sorenson were able to show that an increase in the local supply of venture capital (for start-ups and early stage companies) positively affects (a) the number of firm startups, (b) employment, and (c) aggregate income. The explanation being that on the one hand, nascent entrepreneurs may recognize the need for capital in the future and will come forward in larger numbers if they believe there is suitable finance and on the other, VC-funded firms encourage others to engage in entrepreneurship either through a demonstration effect or by training future firm founders. Venture Capital investment brings other added value to a business beyond financing including increased employee training, improved corporate governance and transparency in areas such as financial audits, reporting tools, budget monitoring, oversight and performance indicators.

71. **Startups contribute significantly to net job creation and angel investors are beneficial to the growth, performance, and survival of startups, even if they are located in economies that are not friendly to entrepreneurs.** According to Harvard Business School research²⁴, startups that have angel backing are at least 14 percent more likely to survive for 18 months or more after funding than firms that do not. The same research indicates that angel-backed firms hire 40 percent more employees, and Angel backing increases the likelihood of successful exit from the startup phase by 10 percent, to 17 percent. In countries other than the United States, angel-funded firms are also more likely to attract follow-on financing. A recent (2015) study of SMEs by the OECD found that within the SME size-class, micro firms (less than 10 employees) are responsible for 58 percent of total net employment growth (the highest proportion) while new firms (younger than 5 years) were responsible for an overwhelming majority of new jobs. Analysis of firm census data²⁵ for the World Bank report “Jobs for Growth” (2015) shows that it is younger firms and more productive firms that create more jobs in MENA. In the case of Jordan, the report shows that young Jordanian firms (establishments between 0 to 4 years of activity) that the project will target, accounted for 40 percent of aggregate net job creation between 2006 and 2011. Among young firms, micro startups – establishments between 0 to 4 years of activity and with less than five employees – accounted for more than half of the 8,000 net jobs created over 5 years (Figure 8)²⁶.

72. **Increased government revenue from this project will be generated over the longer term through tax revenues and contribution to the trade balance as a result of increased exports.** Similarly, the project’s economic contribution to job creation will be realized once the demonstration effect happens and more investments are directed to: More productive and competitive firms offering higher quality jobs,

²⁴ The Globalization of Angel Investments: Evidence Across Countries, Harvard Business School, Working paper 16-072, February 28, 2016.

²⁵ World Bank Enterprise Survey database.

²⁶ 2014 World Bank Regional Report: “Jobs or Privilege: Unleashing the Employment Potential of the Middle East and North Africa”; Jordan Issue Brief.



new spin-off companies, and growth of companies in the value chain.

Rationale for Public Sector Provision/Financing

73. **A report by the WBG’s Independent Evaluation Group (IEG) (The Big Business of Small Enterprises”, 2014) states that, “a credible theory of change for MSME interventions must be focused on leaving a sustainable supply of the service (such as financing, business development services, or training) by establishing well-functioning markets and Institutions, not simply providing a temporary supply of benefits to a small group of firms during a project’s lifespan”.** There are three interrelated reasons that cause markets to provide less than optimal financing for early-stage companies: asymmetric information, institutional failures, and coordination failures. Under each case the government has a role to play be it policy reform or direct intervention. Annex 4 section II provides an explanation of each (asymmetric information, institutional failures, and coordination failure). This project seeks to correct a coordination failure in the market that has impeded the development of a true VC industry in Jordan.

74. **Coordination failure refers to a situation when a VC industry fails to develop due to weaknesses in the ecosystem, such as lack of enough promising investment-ready startups, lack of business angels to back them in earlier stages, lack of able lawyers to negotiate deals and IP agreements, lack of experienced investment professionals, and lack of developed exit markets²⁷.** Yet many of these elements cannot emerge without a developed VC industry existing in the first place. The Jordanian equity industry is concentrated with players investing on larger PE deals with few VC players. Addressing the problem of industry coordination failure is usually done through a mechanism using temporary government injection of capital through a risk sharing facility with private investors until the industry is fully developed and self-sustaining. Examples where this has been done include Australia, Brazil, India, Israel, the United States, the United Kingdom, and Canada.

B. Technical

75. **The World Bank project team conducted an appraisal of the JLGC including a review of its legal structure and designed the project accordingly.** The JLGC was established as a public shareholding company in 1994 to provide guarantees on commercial loans and export credit for SMEs. As a public shareholding company the JLGC is under the supervision of the Jordanian Securities Exchange Commission. It has the legal mandate to establish and manage all types of companies or projects and to subscribe to their capital. A Board of Directors of seven members manages the JLGC and governs its affairs. The CBJ assigns two of the members including the Chairman to represent it, as long as its contribution remains 45 percent or more of the capital. The remaining five members are elected by the Shareholders General Assembly (with the exception of the Central Bank) to represent the remaining shareholders according to the applicable laws and regulations and the Company’s Statute. The JLGC shares are distributed as follows: 49 percent CBJ, 15 percent publicly traded on the Jordan Stock exchange, and the remainder distributed among Private Jordanian and regional banks and institutional investors (insurance companies, Social Security Corporation) in accordance to their contribution. Membership in the Board of Directors is for a period of four years that ends with the election of a new Board.

76. **Operational assessments made of JLGC by the World Bank (2011) and IFC (2012) in the context**

²⁷ Exits. Initial public offerings (IPOs) are typically not a viable exit strategy in most emerging economies with underdeveloped capital markets. Thus, PE/VC funds tend to rely on sales to strategic and financial sponsors and ‘self-liquidating instruments’ to facilitate exit.



of previous Technical Assistance (TA) operations showed that the JLGC has adequate familiarity with the Bank (although limited to TA). In 2013 the IFC and IBRD, through the MSME MENA TA facility, started working on improving the institutional framework in Jordan by establishing the country's first private credit bureau, and supporting the JLGC in risk management, business and product development (with focus on MSME products), and marketing and communication to help expand its outreach and increase the impact of its SME-related products. However, the JLGC does not do equity investments in SMEs and as such it does not have the capacity to implement the project activities. For the implementation of this project activities, the JLGC will select on an international competitive basis a manager who will be responsible for managing the ISSF fund including its staffing and administration. The ISSF manager will be accountable to the JLGC. The World Bank will provide training to the selected manager and ISSF staff on how to apply World Bank guidelines on safeguards, fiduciary and M&E and an operations manual will be developed with clear criteria for the implementation of activities, governance and reporting.

C. Financial Management

77. **The World Bank undertook an assessment of the financial management system of JLGC.** Once the ISSF is established, the World Bank will also perform an assessment of the ISSF financial management systems. The assessment for JLGC concluded that with the implementation of agreed-upon actions, the proposed financial management arrangements would satisfy the Bank's minimum requirements under OP/BP 10.00. The current FM risk is rated as high, however, when considering the risk mitigation measures proposed, the residual overall financial management risk for this financing is downgraded to "Substantial". Annex 2 provides additional information on the financial management assessment and the recommended mitigation measures. The detailed financial management capacity assessment and arrangements are available in the World Bank project files.

78. **The JLGC will be managing the overall coordination of Project implementation, while the day-to-day operations, FM and disbursement functions will be managed by the ISSF.** Using the ISSF, as a Special Purpose Vehicle (SPV), will enable the government to ring-fence the equity shares under an independent company until such a time when the final proceeds will be liquidated and returned to the GOJ²⁸. The ISSF is required to maintain, among other things, appropriate and adequate financial management systems, including records, accounts and financial statements, which adequately reflect the operations, resources and expenditures of the Project. Once the ISSF is established, an FM assessment will be conducted by the World Bank FM team to confirm that the ISSF maintains the adequate financial management assessment for the purpose of the project. The ISSF team will include a full-time Chief Financial Officer financed from the loan proceeds and will work under the supervision of the ISSF General Manager. On the other hand, due to capacity constraints the JLGC will need to hire a part time Senior Accountant financed by the project to closely coordinate with the ISSF Chief Financial Officer on financial and disbursement aspects of the Project.

79. **The Project will finance direct and indirect equity/quasi equity investments as well as finance agreed-upon services the support providers will render to ecosystem agents to incentivize their implementation of innovative activities that catalyze deal flow creation in Jordan.** The deal flow component activities (including the acceleration programs, business development services, and developing angel investor networks) will be outsourced to professional service providers based on clear deliverables to be stated in contracts or partnership agreements. Types of programs will be detailed in



the POM. A simple FM assessment will be conducted to the selected support providers who will carry out outsourced activities to ensure they possess acceptable FM systems.

80. **The flow of funds process will be undertaken by JLGC through a Designated Account (DA) to be opened for the project at a commercial bank accepted by the World Bank.** JLGC will transfer funds from the DA to ISSF's company account. ISSF's company account will be used to finance ISSF different activities, including the equity/quasi equity capital investments, payments for cost of services incurred by support providers, as well as project management costs. The JLGC will be responsible for preparing withdrawal applications to claim advances, and subsequent replenishments and reimbursements from the World Bank.

81. **The ISSF will setup an acceptable financial system that will track payments, investments costs, quasi equity repayments, maturities, and investment yield/return until such a time when the final proceeds will be liquidated and returned to the GOJ.** The ISSF will submit quarterly financial reports to cover all financial activities to JLGC within 30 days after the quarter end date for consolidation with the other project activities that are carried out by JLGC. JLGC will be responsible to submit the quarterly Interim Unaudited Financial Reports (IUFRs) to the World Bank within 45 days following the quarter end date.

82. **Exits will be through one of the normal routes – trade sale, management buy-out, IPO or such others as stipulated in the POM – and be sanctioned by the Investment Committee on proposals prepared by the ISSF.** The returns/profits on investments as well as the proceeds of selling or liquidating the investments will be deposited in a separate bank account to be opened at a commercial bank for a different purpose than that of the Project's DA and would be used based on agreement with the CBJ and the Government specified in the POM.

83. **The project will design and implement an effective internal controls system.** The POM, including an FM chapter, acceptable to the World Bank, was adopted by the JLGC and the Borrower, of which the financial procedures and internal controls to be put in place will be spelled out. The ISSF will also adopt the POM once it is created. The templates of shareholder agreement, investment agreement and grant agreement will be included in the POM. The POM covers topics pertaining to project implementation, including the inter-agency roles and responsibilities, financial management procedures and all eligibility and selection criteria, as well as an exclusion list. ISSF will appoint/hire its own internal auditor to cover all the project activities by no later than one year after project effectiveness and will be reporting to the Board of ISSF. An effective terms of references (TOR) for a modern internal audit function will be submitted to the World Bank for non-objection. The main function of the internal auditor in relation to the project will be to conduct risk analysis of the processes and ensure compliance with the procedures in general and to the eligibility criteria of the project in particular as described in the POM. The cost of the internal auditor will be covered under the Project Management Component.

84. **An external auditor will be hired to perform a financial audit of the project annual financial statements, in accordance with TORs acceptable to the World Bank.** The Project will need to hire an auditor within 6 months of project effectiveness. On the other hand, either the external auditor's scope will be extended or a consultancy firm will be hired by the ISSF to perform annual "Agreed Upon Procedures (Review)" of beneficiary (seed, early-stage, VC, start-ups, accelerators, angel networks, crowd funding platforms, and the like). Both activities will be financed under the Project Management Component.



D. Disbursement

85. **JLGC will initially request a reimbursement for the agreed incurred expenses before project effectiveness.** JLGC will also request an initial advance to the DA for the project to start disbursements toward implementation. Disbursements from the World Bank to JLGC will be based on quarterly IUFs, which will provide actual expenditure for the preceding quarter (three months) and cash flow projections for the next two quarters (six months). All supporting documentation will be retained at JLGC. They will be kept in a manner readily accessible for review by World Bank missions and internal and external auditors.

86. **Conditions for Disbursements.** The hiring of a qualified FM Manager for ISSF will be a condition for disbursement.

E. Procurement

87. **The procurement capacity assessment was conducted and rated the procurement risk to be Moderate.** The implementing agency JLGC general assessment determined that established procurement of this institution follows the core procurement principles as defined by the World Bank. The project will apply the Bank's procurement framework in terms of appointing a management firm or alternatively selection of the manager of the ISSF who will appoint the team, as well as the purchase of services, and simple office supplies and equipment for the ISSF to make it operational. To reduce the identified risk, the following measures are proposed to mitigate the risk rating: (a) arrange for appropriate support (staff, training, tools) to handle procurement management at least until selection of the management consultant; (b) ensure proper contract management by the implementing agency; (c) establish a system to monitor and expedite ISSF contract modifications; and (d) agree on appropriate publication (that is, on a website or press bulletins) of procurement decisions and other relevant information as minimum.

88. **The following project procurement arrangements are envisaged:**

- (a) Anti-corruption guidelines: the "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006 and revised in January 2011 will apply.
- (b) Procurement regulations: "World Bank Procurement Regulations for Borrowers under Investment Project Financing" dated July 1, 2016 ("Procurement Regulations"), will be applied for the project. In particular, for office supplies and the selections related to the ISSF manager and staff, the usage by JLGC of the selection arrangement under "Commercial practices" as described in the section 6.46 of the above referenced regulations. The Commercial Practices refers to the use of well-established procurement arrangements used by the private sector (normally entities not subject to the Borrower's public procurement law), for the procurement of Goods, Works, or Non-Consulting Services. The following Bank's Core Procurement Principles are the standard for determining the acceptability of Commercial Practices: value for money, economy, integrity, fit for purpose, efficiency, transparency and fairness.
- (c) The project activities are by nature not sophisticated. JLGC is expected to select a manager for the ISSF, who will be appointing a team to implement its function as a PIU. In addition, purchase of office supplies and furniture will be incurred as needed by the ISSF.



- (d) Procurement methods for goods, non-consulting service and consulting services will follow the established Commercial Practices of JLGC.
- (e) Staff: The procurement function for the hiring of the ISSF manager and services related to the role of JLGC as implementing agency is assigned to the Procurement Specialist in JLGC. Procurement qualifications align with the current position requirements. Technical support of JLGC shall be needed for assisting the procurement staff in the evaluation and selection of ISSF manager and team members. The implementing agency shall be liable in managing the contracts of the ISSF manager and the ISSF team. Alternatively, the implementing agency may choose to delegate the contract management of the ISSF staff members to the ISSF manager.

F. Social (including Safeguards)

89. **This project is categorized as financial intermediary (FI) under the World Bank’s Environmental Assessment OP 4.01.** Environmental and social risks are low given that the subprojects to be financed are expected to be small service and technology start-ups upstream in their business development cycle. The Environmental and Social Management Framework (ESMF) will govern environmental and social aspects of the project, and the relevant Jordanian regulations and procedures are reflected in the ESMF. The World Bank loan will be channeled through a Special Purpose Vehicle, an intermediary institution established to provide equities to selected SMEs. The ISSF Manager will be accountable to the Board of Directors of the ISSF of which the JLGC will be the Chairman. As such, the ISSF will directly report to the World Bank, and in turn, the JLGC will report to MOPIC on project implementation. With regards to safeguards reporting, the ISSF will conduct annual post-review audits and present progress on the Project to the JLGC. The JLGC will report to the WBG as indicated in this ESMF guidelines. Aiming at providing information about key environmental and social impacts of the project, and effectiveness of mitigation measures. Sample E&S management/mitigation, and monitoring frameworks have been developed and are included in the Annexes of the ESMF. The monitoring framework serves also as a tool for monitoring and evaluating safeguards compliance with the ESMF. The ISSF will include a section on safeguards compliance in each progress report which will be submitted to the Board of Directors and JLGC. JLGC will transmit progress reports to the World Bank.

90. **The project is expected to mainly finance small enterprises in the services or technology sphere that will have limited environmental or social risks associated with them.** The assessment indicates that the activities financed by the project will not involve any works that would require land acquisition. The ESMF which provides a list of ineligible sub-activities, a screening mechanism, and monitoring and reporting system, has been prepared and included in the POM to handle potential environmental and social risks. The project Investment Officers at the ISSF will be responsible for screening investments in angel/seed and early-stage/VC companies and report to the JLGC in accordance with the project ESMF. The screening will ensure activities funded will not involve involuntary resettlement. Transparency of the application process is critical to ensuring that all have equal access to funding. The call for proposals will be widely advertised and will target women’s associations and other entities to ensure that information is adequately disseminated among potential female entrepreneurs. The POM will specify the eligibility criteria for application, how the process will be advertised, as well as publicly disclose selected proposals. The project will establish a grievance redress mechanism that will be adequately publicized and will be overseen by JLGC. The JLGC will hire a consultant who will provide support to the overall monitoring and follow up of ISSF activities, including managing complaints that may arise, and work to get them resolved.



G. Environment (including Safeguards)

91. **This project is classified under the category ‘Financial Intermediary’ in accordance with the World Bank’s Operational Policy OP 4.01.** Financial institutions and ecosystem partners selected to implement investments and ecosystem support are referred to in this context as ISSF partners. ISSF partners include venture capital (VC) investment funds, angel/seed funds, and ecosystem providers (accelerators, incubators, business development services etc.). The project is expected to mainly finance small enterprises in the services or technology sphere that will have limited environmental or social risks associated with them. The activities do not involve pure real estate and construction (establishment of offices and purchase of construction plant and equipment). However, it is recognized that there may be some business activities in which the environmental and social risks and impacts may be triggered (although the scale will be limited due to the size of the SMEs).

92. **The cost associated with implementing the ESMF will be covered under the standard operating/administrative costs of the private company as the companies are obliged to follow Jordanian Environmental Law.** However, it is expected that the ISSF will retain access to Environmental Safeguards (ES) consultancy services to advise the ISSF on an “as needed” basis. Environmental Safeguards consultancy services implies that the ISSF may retain services of several different ESs as they are available when their services are needed. The total estimated costs – that will cover training, consultancies, and audits – associated with the implementation of the ESMF during the project lifetime is approximately US\$306,000. This is an estimate, which will fluctuate according to percentage of ISSFs subproject applications which require subproject ESMPs.

93. **The screening process for an SME will require documentation that the applicant has completed a Project Information Form (PIF) for the intended project and has submitted it to the Ministry of Environment for screening, per Jordanian law.** The ESMF will also serve as a screening and monitoring tool and provides reference to Environmental and Social (E&S) management/mitigation tools. An Inter-Ministerial Central Licensing Committee reviews the PIF, and after conducting site surveys determines if the project is classified as category A, B or C. The Ministry issues legally binding guidance on the Scope of the Assessment. The applicant is expected to provide documentation of the Jordanian Ministry of Environment screening and categorization process has been followed prior to proceeding to financing. An ESMF that provides a list of ineligible sub-activities, the screening process, and monitoring and reporting system has been prepared and is included in the POM to handle potential environmental and social risks.

94. **Potential inclusion of agribusiness companies is expected, however, the expected type of businesses is limited to innovative packaging, processing, marketing and distribution and does not involve production nor use of pesticide.** Therefore, OP4.09 Pest Management is not triggered. Any sub-activities which produce or use pesticide will be excluded from the project and listed in the ineligible activities in the ESMF.

95. **ISSF Investment Officers will be trained as to how environmental screening and categorization is mainstreamed into the overall application and approval process for applicants.** ISSF will contract an Environmental Specialist to conduct annual due diligence audits to ensure that processes have been followed correctly and that all documentation needed is filed appropriately.

H. Other Safeguard Policies

Citizen/Client Engagement



96. **As part of citizen engagement activities, the ISSF will be responsible for the implementation of a minimum of two beneficiary satisfaction surveys to solicit feedback from project beneficiaries on services received and performance of partner funds and ecosystem intermediaries.** A model questionnaire is included in the M&E framework in Annex 1 to enable the monitoring of this indicator.

I. World Bank Grievance Redress

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



VII. RESULTS FRAMEWORK AND MONITORING

Results Framework
COUNTRY : Jordan
Innovative Startups Fund Project

Project Development Objectives

The project's development objective is to increase private early stage equity finance for innovative small and medium enterprises ("SMEs").

Project Development Objective Indicators

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: Private Capital Mobilized		Amount(US D)	0.00	71500000.00	Semi-annual	Funds portfolio investments/shareholder agreements	Fund manager/JLGC
Private Early/Seed Stage Capital Mobilized Through the Project		Amount(US D)	0.00	14500000.00	Semi-annual	Shareholders agreements	Fund manager/JLGC
Private Venture Capital Mobilized Through the Project		Amount(US D)	0.00	57000000.00	Annual	P-P Fund Shareholder Agreement and investment shareholder agreements	JLGC/ISSF



Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Description: The core indicator track the amount of direct financing (in the form of equity and/or debt) mobilized by private entities, using private funding, to finance investments within an IBRD/IDA operation or investments (PE, GE, RE, SF, and GU) directly linked to that operation.							
Name: Beneficiary Companies Receiving Financing Through the Project		Number	0.00	150.00	Annually	Regular Survey	The JLGC PMU
Beneficiary Companies Receiving Private Early/Seed Stage Financing Through the Project		Number	0.00	80.00	Annual	Regular survey	ISSF
Beneficiary Companies Receiving Private VC Financing Through the Project		Number	0.00	70.00			
Beneficiary Companies Led by Women Receiving Financing Through the Project		Percentage	0.00	25.00			
Beneficiary Companies Led by Youth Receiving Financing Through the Project		Percentage	0.00	30.00			



Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Beneficiary Companies Graduating From the Deal Flow Component Receiving Financing Through the Project		Number	0.00	100.00	Annual	Regular Survey	ISSF/JLGC

Description: This PDO indicator measures the total number of innovative start-ups and SMEs that receive financing through the project (companies that receive follow-on financing through the project should only be counted once)

Name: Beneficiary Companies That Introduced a New Product or Process		Percentage	0.00	100.00	Annually	Regular reporting of the project	ISSF/JLGC
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Description: This PDO indicator will track innovation emanating from recipients of Grants and equity investment through the project.

Intermediate Results Indicators

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: Total Financial Intermediaries Receiving Financing Through the Project		Number	0.00	10.00	Annually	Regular Survey	ISSF/JLGC
Venture Capital Financial Intermediaries Receiving Financing Through the		Number	0.00	6.00	Annual	Regular Survey	ISSF/JLGC



Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Project							
Early/Seed Stage Financial Intermediaries Receiving Financing Through the Project		Number	0.00	4.00	Annually	Regular Survey	ISSF/JLGC
Description: This indicator measures the total number of financial intermediaries that receive financing through the project (funds that receive follow-on financing through the project should only be counted once)							
Name: Beneficiaries Receiving Acceleration Services Through the Project		Number	0.00	150.00	Annual	Regular Survey	ISSF/ Ecosystem service providers
Female Beneficiaries Receiving Acceleration Services Through the Project		Percentage	0.00	30.00			
Young Beneficiaries Receiving Acceleration Services Through the Project		Percentage	0.00	40.00			
Description: Number of startups/ SMEs receiving acceleration services for 4-6 months							
Name: Prospective Angel Investors Receiving Training Through the Project		Number	0.00	30.00	Annual	Pre-Seed Grant Agreements/ Training providers	ISSF



Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Description: Entities receiving grants and Prospective Angel investors receiving training							
Name: Shareholder or Partnership Agreements Signed With Equity Finance Providers/Financial Intermediaries		Number	0.00	3.00	Quarterly	Shareholder Agreements provided	ISSF/JLGC
Description: This measures a key step in setting up the public-private funds							
Name: Beneficiaries Satisfied With Services Received and Performance of Funds		Percentage	0.00	75.00	Annual	Regular Survey	ISSF/JLGC
Description: This indicator measures the performance of the seed, early stage and VC funds' management. The results collected by the ISSF will serve to inform the project design and adjust any elements that might be hampering desired results in terms of participation of financial intermediaries or volume of investment. Since both the ISSF and the WB will have access to this data it is expected that both parties will work together to use these results as a feedback loop into the project.							
Name: Beneficiary Companies Receiving IR Support and BDS Services Through the Project		Number	0.00	675.00	Annual	Regular Survey	ISSF/JLGC
Beneficiary Companies Led by Women Receiving IR Support and BDS Services		Percentage	0.00	30.00			



Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Through the Project							
Beneficiary Companies Led by Youth Receiving IR Support and BDS Services Through the Project		Percentage	0.00	30.00			
Beneficiary Companies Receiving IR Support Through the Project		Number	0.00	600.00			
Beneficiary Companies Receiving BDS Services Through the Project		Number	0.00	75.00			
<p>Description: Measures the number of beneficiaries that receive investment readiness training and Business Development Services (BDS) grants as means of support to become ready/eligible for investment through the ISSF</p>							



Target Values

Project Development Objective Indicators

Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	YR6	End Target
Private Capital Mobilized	0.00	10000000.00	20000000.00	35000000.00	45000000.00	60000000.00	71500000.00	71500000.00
Private Early/Seed Stage Capital Mobilized Through the Project	0.00	5000000.00	6000000.00	9000000.00	11000000.00	12000000.00	14500000.00	14500000.00
Private Venture Capital Mobilized Through the Project	0.00	5000000.00	14000000.00	26000000.00	34000000.00	48000000.00	57000000.00	57000000.00
Beneficiary Companies Receiving Financing Through the Project	0.00	10.00	40.00	60.00	80.00	100.00	150.00	150.00
Beneficiary Companies Receiving Private Early/Seed Stage Financing Through the Project	0.00	4.00	15.00	35.00	60.00	70.00	80.00	80.00
Beneficiary Companies Receiving Private VC Financing Through the Project	0.00	6.00	25.00	25.00	20.00	60.00	70.00	70.00
Beneficiary Companies Led by Women Receiving Financing Through the Project	0.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00
Beneficiary Companies Led by Youth Receiving Financing Through the Project	0.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00



Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	YR6	End Target
Beneficiary Companies Graduating From the Deal Flow Component Receiving Financing Through the Project	0.00	0.00	10.00	20.00	40.00	60.00	100.00	100.00
Beneficiary Companies That Introduced a New Product or Process	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Intermediate Results Indicators

Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	YR6	End Target
Total Financial Intermediaries Receiving Financing Through the Project	0.00	2.00	4.00	6.00	7.00	9.00	10.00	10.00
Venture Capital Financial Intermediaries Receiving Financing Through the Project	0.00	1.00	2.00	3.00	4.00	5.00	6.00	6.00
Early/Seed Stage Financial Intermediaries Receiving Financing Through the Project	0.00	1.00	2.00	3.00	3.00	4.00	4.00	4.00
Beneficiaries Receiving Acceleration Services Through the Project	0.00	15.00	45.00	90.00	150.00	150.00	150.00	150.00
Female Beneficiaries Receiving Acceleration Services Through the Project	0.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00



Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	YR6	End Target
Young Beneficiaries Receiving Acceleration Services Through the Project	0.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00
Prospective Angel Investors Receiving Training Through the Project	0.00	0.00	10.00	20.00	30.00	30.00	30.00	30.00
Shareholder or Partnership Agreements Signed With Equity Finance Providers/Financial Intermediaries	0.00	1.00	2.00	2.00	3.00	3.00	3.00	3.00
Beneficiaries Satisfied With Services Received and Performance of Funds	0.00	50.00	50.00	50.00	75.00	75.00	75.00	75.00
Beneficiary Companies Receiving IR Support and BDS Services Through the Project	0.00	130.00	265.00	400.00	535.00	675.00	675.00	675.00
Beneficiary Companies Led by Women Receiving IR Support and BDS Services Through the Project	0.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00
Beneficiary Companies Led by Youth Receiving IR Support and BDS Services Through the Project	0.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00
Beneficiary Companies Receiving IR Support Through the Project	0.00	120.00	240.00	360.00	480.00	600.00	600.00	600.00
Beneficiary Companies Receiving BDS Services Through the Project	0.00	10.00	25.00	40.00	55.00	75.00	75.00	75.00





ANNEX 1: DETAILED PROJECT DESCRIPTION

COUNTRY: Hashemite Kingdom of Jordan
Innovative Startups Fund Project

1. **The Government of Jordan has requested a US\$50 million loan from the World Bank to set up a funding facility that would invest and provide support to innovative startups and SMEs.** For this purpose, the World Bank loan will be used to establish an Innovative Startups and SME Fund (ISSF) registered as a Jordanian company managed under pure commercial practices by a private manager selected on a competitive basis. The ISSF will have the sole purpose of implementing the activities of the Project which include making equity and quasi equity investments in innovative startups directly through ISSF or indirectly through funds, and implementing activities to through ecosystem support entities to create a quality deal flow of viable potential investments. Details on the ISSF activities are described in Section B. below. The ISSF will have a term of 12 years with the option of extending another 3 years.

2. **The JLGC will be responsible for setting up the ISSF, selecting the private manager, and ensuring that project implementation, and reporting are conducted in accordance with the criteria established by the World Bank in the Project Operations Manual (POM).** The Central Bank of Jordan (CBJ) has committed an amount of US\$48 million to invest in the ISSF in addition to the World Bank loan, however, the investment strategy will be phased to ensure private sector investment participation to the extent possible.

A. Governance and Role of Key Stakeholders in the ISSF

3. **The Government will not be involved in the operations or administration of the ISSF.** A Monitoring Committee representing the Government will have a high level monitoring role and receive reporting on an annual basis from the JLGC on the ISSF's achievement towards the development objective. The MC will be composed of representatives from the MOPIC, CBJ, MOF, and MOI&T. The governance structure and role of key ISSF member entity is described below:

JLGC

4. **The JLGC will legally set up the ISSF as a private shareholding company and assume 51 percent of the shareholdings and 49 percent of shares will be accorded to the CBJ.** The JLGC will put in place and be the Chairman of the ISSF Board of Directors (BOD) and will be the project implementing agency in terms of the World Bank loan in charge of ensuring proper project implementation and reporting by the ISSF. The JLGC will not have any role in the implementation of the activities or selection of investments. The JLGC will select a manager of the ISSF from the private sector, with international experience. The selection process and evaluation will be conducted based on either competitive practices or direct selection and in accordance to procurement principles specified in the POM. The JLGC will prepare and initiate the call for proposals for the ISSF manager and will ensure that an evaluation committee (EC) made of independent private experts is in place. Selection and evaluation of the ISSF manager will be made using criteria provided by the World Bank and approved by the JLGC Board under technical non objection from the World Bank. The JLGC will ensure that in addition to implementing project activities, the selected ISSF manager will be responsible for collecting all the data required for the Project Indicators, supervising and



providing reporting to the World Bank in accordance to the guidelines in the project operations manual (POM) including those related to financial management, procurement principles, and safeguards guidelines.

CBJ

5. **The CBJ will have no role in the ISSF.** The CBJ will only provide capital and will take the position of a silent partner (no veto, non-voting shares, and no Board seat). According to the Companies Law, the CBJ can have the JLGC represent it on the BOD.

ISSF Board of Directors (BOD)

6. **The ISSF will have a BOD selected by the JLGC in accordance to Jordanian Companies Law and based on criteria and non-objection of the World Bank.** The JLGC Director General (DG) will be the Chairman of the Board. In addition to the JLGC DG, the BOD will consist of up to 6 private sector experts in industry, equity finance, entrepreneurship, corporate law, and accounting/finance. The term of the BOD shall be (4) years. Membership for any member shall terminate upon the lapse of the term of the Board/death/resignation/or removal from the Board and election/renewal of new/current members will follow the process required by the Jordanian Companies Law.

7. **The BOD will approve the selection of the ISSF manager based on the recommendation of the EC.** The Board will delegate to the ISSF manager the responsibility for the management of investments including all decision-making related to implementation of all other activities and operations including staffing. The Board will also approve the selection of the IC and delegate to it the responsibility for setting the ISSF investment strategy, selection of investments (all or capital investments below a certain threshold) and sanctioning of divestments/exits. The ISSF manager will be part of the IC. The BOD will maintain oversight to ensure proper conduct of the business of the company and fulfilment of its obligations and development objective.

8. **The Board of Directors shall be responsible, among other things, for:**

- (a) Selecting the ISSF Manager in accordance to WB criteria and technical non-objection.
- (b) Selecting the IC in accordance to WB criteria and technical non-objection.
- (c) Chairing the IC meetings whereupon the BOD will elect one of the BOD members to Chair (JLGC not included)
- (d) Sanctioning investments selected by the IC that fall above a specific capital amount or delegating selection of all investments to the IC (the BOD cannot take any investment/divestment decision not recommended by the IC).
- (e) Overall supervision of the executive management activities.
- (f) Appointing an internal auditor to carry out objective and independent in-house audits.
- (g) Other functions or delegations thereof as stipulated under the Jordanian Companies Law.



9. **To be eligible as a member of the BOD, an individual must:**

- (a) Be non-governmental
- (b) Possess Experience in VC/investment/Corporate law/accountancy.
- (c) Possess Experience in the entrepreneurial ecosystem – either as an investor, or as an entrepreneur.
- (d) Have limited or no conflict of interest – see paragraph 25 below on conflict of interest
- (e) Possess strong analytical, technical and operational experience

ISSF Manager

10. **The ISSF manager will set out to the IC, the ISSF investment strategy to meet the project development object and criteria and be solely responsible for ensuring the implementation of all the project activities including those related to investments and deal flow creation.** The ISSF manager will also conduct the necessary marketing, outreach, training, capacity building, and support events and activities relevant to the success of the project. The ISSF manager will be responsible for staffing the ISSF, and will be responsible for ensuring that all implementation and reporting are in accordance with the World Bank guidelines detailed in the POM.

11. The ISSF manager will be remunerated in accordance with industry best practice which will include a performance-linked reward structure and incentives to ensure maximum leverage from the private investors (see Annex 2).

Investment Committee

12. **The JLGC, CBJ, and any Government representative or official will not have any role in the selection and management of investments; this will be the sole responsibility of the ISSF Investment Committee (IC).** The IC will be composed of 5 members including the ISSF manager. The purpose of the IC is to formulate the investment strategy, evaluate, approve, and review all capital deployments by the ISSF program for investment tickets that fall under a specific threshold approved by the BOD. The BOD may delegate to the IC the selection of approval of all investments. The IC will also be in charge of all exits and all restructurings across the areas that ISSF is involved in as delegated to it by the BOD.

13. **The BOD must ensure that the appropriate qualified IC members and selection process are put in place and capacity is distributed so as to cover each type of investment (direct and indirect investments).** The ISSF manager will propose IC members to the Board who will appoint the IC in accordance to criteria in the POM and on a non-objection from the WB.

14. **To be eligible as a member of the IC, an individual must:**

- (a) Be non-governmental.
- (b) Possess Experience in VC/investment.



- (c) Possess Experience in the entrepreneurial ecosystem – either as an investor, or as an entrepreneur.
- (d) Have limited or no conflict of interest – see paragraph 25 below on conflict of interest.
- (e) Possess strong analytical and operational experience.

15. **Tasks and Obligations of the IC include:**

- (a) Formal approval of Investments as delegated to it by the BOD
- (b) Understanding the ISSF investment goals and objectives.
- (c) Adopting, reviewing and revising the ISSF investment policies and guidelines.
- (d) Establishing a strategic framework within the overall ISSF strategy for capital deployments.
- (e) Authorizing all capital deployment activities within the set guidelines and framework.
- (f) Monitoring and reviewing performance of direct and indirect investments including taking necessary corrective actions as needed.
- (g) Approve all exits.
- (h) Administrative
 - (i) Review and approve annual budget that is to be shared and approved by the Board.
 - (ii) Monitor capital deployment and ISSF annual budget.

B. Project Activities

Equity/Quasi Equity Financing Program (US\$44.75 million Bank loan/total budget US\$53.5 million)

16. **This activity will fill the funding gap in three categories (seed, early-stage, and VC).** The ISSF will make equity and/or quasi equity capital investments directly in SMEs alongside private investment funds seeking to leverage financing on a specific deal as well as indirectly by making investments in financial intermediaries dedicated to financing start-ups, early stage or venture stage companies (such as accelerators, angel networks, VC funds, crowdfunding platforms and the like). Funds will also go toward supporting private investors in their post-investment support to beneficiaries.

17. **Over the project life and the initial ISSF investment period, the Project is expected to invest in approximately 200 companies balanced between the three high risk enterprise stages roughly categorized as: Seed (investment ticket size (ITS) below US\$280,000); early stage (ITS US\$280,000 – US\$750,000); and VC (ITS US\$750,000 – US\$3 million).** Approximately US\$70 million is expected to be leveraged from private investors depending on the number of investments either as partner investors in funds or as equity co-investors in deals.

Eligible Enterprises

18. **To be eligible for an investment from the ISSF either directly or indirectly, an SME must have a presence in Jordan with the locus of its operations conducted in Jordan even if their product target market is external.** This includes companies with foreign shareholders but who include Jordanians and/or

legal residents. Eligible SMEs may not be engaged in any of the activities or sectors included in the negative expenditures list described in the project ESMF and POM.

19. **Table 1.1 provides high level guidelines for the ISSF in which a total capital investment of around US\$50 million can be mobilized during the first 6 years (1st investment period).** After 6 years, the fund will be topped up with additional CBJ capital contribution to be used for follow-on financing and for a second Capital round of investments (2nd investment round). Table 1.1. is indicative and the investment strategy is subject to adjustment and re-allocation to meet the market demand. Any key changes to the investment strategy and allocations will require BOD and WB approval within the project life and the BOD's approval after the WB project closes.

Table 1.1. Broad Investment Parameters of the ISSF over the Project Life (6 years) *

Type	Indirect Investments			Direct Investment	Total
Stage	Seed (below US\$280,000)	Early Stage (US\$280,000- US\$750,000)	Venture US\$750,000 - US\$2 million	Early Stage and Above	
ISSF Allocation	US\$7 million	US\$14 million	US\$24 million	US\$5 million	US\$50 million
Sectors	Opportunistic with focus on Tech, Media, Telecom, Agricultural, Pharmaceutical, and energy				
Players	Accelerators / Incubators + Seed Funds	Accelerators / Incubators + Angel Funds / networks	Early stage and VC Funds	Co-investment with incubators/accelerators, Angel and VC funds	
Size of Opportunity	Fund Size US\$2 million-US\$5 million	Fund Size US\$5 million – US\$15 million	Fund Size US\$15 million +	Investment raising a total of US\$500,000 - US\$1.5 million	
ISSF Support	Up to US\$1.5M million per fund	Up to US\$3.5M million per fund	Up to US\$5.5M million per fund	Investment of US\$200,000- US\$500,000 per startup	
Target number of funds	3-4 funds	3-4 funds	3-4 funds	N/A	
Private leverage (approximation)	US\$2 million per fund (total US\$7M)	US\$7 million per fund (total US\$24M)	US\$9.5 million per fund (total US\$33M)	US\$250,000 - US\$1 million per deal (total US\$7.5M)	US\$71.5 million
High Level Criteria for each investment**	No more than 40% of the total fund allocation.	No more than 30% of the total fund allocation.	No more than 30% of the total fund allocation.	Co-investing only; no more than 50% of each round.	
Number of companies (approximation)	70-80 companies	60-70 companies	30-40 companies	10 - 15 companies	150 - 200
Total Allocation	US\$14 million	US\$38 million	US\$57 million	US\$12.5 million	US\$121.5 million

* Includes WB project funds and funds from CBJ contribution.

** Please refer to direct and indirect investment guidelines for more details.

Indirect Investments Guidelines

- (a) The purpose of this allocation is to allow ISSF, the creation of a sustainable funding (fund or similar) ecosystem that will in turn leverage ISSF funding to raise private sector capital while investing in startups across the various stages of the lifecycle (see paragraph 18 for a description of eligible enterprises).
- (b) Pre Seed, Seed and Early Stage funds will have to have a training element in their mandate that addresses both startups and investors. They will also be required, if appropriate, to develop a network of mentors and advisors that their investments / ecosystem can benefit from. These programs will need to work with ISSF on these industry building activities alongside other key stakeholders in the ecosystem – for example, universities.



- (c) Funding allocation from ISSF into the various funds (indirect investments) can take place during first close but should be prorated based on total fund raise. Advances are possible to help kick start operations.
- (d) Each fund manager can apply to a maximum of 2 allocations from ISSF; they could take place at the same time assuming the fund addresses different elements of the ecosystem.
- (e) At least 50 percent of the capital allocated will need to go to newly established fund / fund managers
- (f) **Evaluation Criteria for an investment in a fund:** When evaluating an investment, the following elements must be taken into consideration: Track Record including annual audited financial statements²⁹ (the audit report must be void of any adverse or disclaimer opinions in the last 3 years); Structure; Management / Team; Investment Strategy; Focus / Sector / Market; Sustainability; Key man risk; Stage; Budgets; Commercial Returns; Fund Economics (that is, Management Fees, Hurdle Rates, Carry, and so on); Fund Size & Life; Development Impact. Due diligence reports for investments will be made available to the World Bank upon request.

Eligible Funds

20. **To receive ISSF capital, an Eligible fund must have a physical operational presence in Jordan, invest in companies that are physically located in Jordan and have audited financial statements in accordance to the project criteria indicated in the POM.** It must meet the financial requirements to conduct and manage investments acceptable to the World Bank as indicated in the POM. This may include if applicable companies with 2 years of operations having in place a sound financial systems and audited financial statements by an auditor licensed from the Jordanian Association for CPA (JACPA) and not have adverse or disclaimer audit opinions for the last three years. It must not be under litigation or on the list of banned companies in Jordan or by the World Bank. Similarly, key company personnel (owner and or CEO) must not have any criminal record and is not under any blacklist used by the JLGC or the World Bank.

Direct Investments Guidelines

- (a) The purpose of this allocation is to allow ISSF to support key startups that can either be generated from any of the funds that the ISSF program has supported and / or directly sourced from the ecosystem (see paragraph 18 for a description of eligible enterprises).
- (b) The company will need to have a co-investor(s) as the ISSF will only contribute a part of the overall capital raise – refer to Table 1.1.
- (c) The lead investor in the opportunity will need to provide all Due Diligence to ISSF
- (d) The opportunity should yield a projected IRR or at least 15 percent

²⁹ For very small entities and those with less than one-year business life they will be required to provide simple reviewed financial statements until such a time when they are required to have audited financial statements.



- (e) A company can only apply up to two times for ISSF investments across its lifecycle. If the company is applying for a second investments, the company must meet a majority of their base case assumptions under the first investment.
- (f) Investment structure
 - (i) Equity: At its simplest, a straightforward equity investment in the target firm with ISF subscribing to share capital in the entity at the agreed valuation. This straightforward structure may be modified so that the investment is made in tranches (steps). The steps may be benchmarked against targets, milestones or a specific timeframe. The subscription price may also be adjusted up or down if milestones are not achieved or forecasts are exceeded.
 - (ii) Convertible Debt: ISSF provides financing to the enterprise as a loan at an agreed interest rate, but the loan becomes convertible into equity in the target business (sometimes automatically, at other times upon election of ISSF).
 - (iii) In most cases, as approved by the IC, the ISSF would look to sign a term sheet highlighting the overall structure of a deal. The purpose here is to highlight the intent and the overall perceived structure. This is non-binding and is subject to change based on the outcome of the due diligence process.
 - (iv) Regardless of the structure of the investment, certain standard protective provisions will need to be included in the various agreements. These include terms such as drag and tag rights, rights of first refusals, audit rights, board seats, targets, non-compete, good leaver and bad leaver clauses and various reserved matters. These terms are determined on a case by case basis and are mainly there to protect ISF downside risk.
- (g) **Evaluation Criteria for a direct investment:** When evaluating a co-investment, the following should be taken into consideration: Team; Stage of investment; Market size; Comparative edge; Market validation; Business model and unit economics; Risk; Valuation; Exit; Track Record including annual audited financial statements³⁰ (the audit report must be void of any adverse or disclaimer opinions in the last 3 years); Due diligence reports for investments will be made available to the World Bank upon request.

Investment Selection Process

21. **A meeting agenda including dossiers of each application shall be prepared and circulated by the ISSF manager to the Committee members (or the BOD in the case where the BOD sanctions an investment that fall above a specific threshold not delegated to the IC) at least five business days before each meeting to enable the Committee (or BOD in certain cases) to make informed decisions.** A simple majority vote will result in a resolution being passed. The Chairperson will have a casting vote if the vote is tied. If the Chairperson is absent from the meeting, the remaining members will elect one of their number as Chairperson of that meeting.

³⁰ For very small entities and those with less than one-year business life they will be required to provide simple reviewed financial statements until such a time when they are required to have audited financial statements.



22. The IC/BOD shall maintain clear minutes or other records of meetings and activities of the Committee/BOD, which must be circulated to all Committee/BOD members who were present at the meeting within ten (10) business days for approval and subsequent signature. Once signed, the minutes shall be distributed to all members.

23. Decisions made by the IC/BOD will be evidenced by resolutions passed at a meeting and recorded in the minutes of the respective meeting, or by a written resolution (including unambiguous email approval) signed by all members of the Committee.

24. The IC shall be responsible for the appointment, compensation and oversight of the work of any independent counsel or other advisers retained by the IC, and the ISSF shall provide appropriate funding for payment of reasonable compensation to any such independent counsel or other advisers retained by the IC.

Conflict of Interest

25. **The BOD will adopt a code of conduct, conflict of interest policies and procedures, and enforce several measures to mitigate conflict of interest that may arise.** The details of these policies and procedures as well as the mitigation measures are detailed in the POM. The Committee and BOD members and any other person present at an investment selection meeting (Invitees) must declare any actual or potential conflicts of interest in any investments at the start of each meeting or, at a minimum, before discussion of the relevant agenda item or topic. All details of any conflict of interest must be documented in detail in the minutes of the relevant meeting. Before discussing the relevant agenda item or topic, the Committee must determine by majority vote (excluding the meeting member with the potential conflict of interest) whether the relevant member or Invitee has a real or perceived conflict of interest and whether that member or Invitee shall be excused from the deliberations on the conflict of interest. The Committee/BOD shall review all actual or potential conflicts of interest with the designated Legal Counsel.

Investment Support (US\$3.5 million)

26. **To provide an incentive to partner fund managers and co-investors to invest in innovative startups and early stage SMEs the ISSF will provide partner funds, in addition to capital, an amount (non-reimbursable) to cover costs related to supporting the innovation of the startup post investment.** Post investment activities may include professional financial, legal and administrative costs to register/maintain/update patents, field testing of a product in a new market, and back office support (Accounting, legal, marketing, administration) which small companies usually do not have.

27. **Fund managers applying for a capital investment or co-investment from the ISSF must present a proposal providing the rationale for the costs based on their investment strategy, company stage, industry, type of innovation, and investment size.** Amount provided will be subject to review by the IC and based on the availability of funds.

Deal-flow Creation Support (US\$3.125 million Bank Budget/total budget US\$6.25 million)

28. **Project funds under this component will support 3 tiers of entrepreneurship, and help create additional angel investors.** Under this activity, the ISSF will support 825 entrepreneurs/SMEs, as well as



intermediaries and networks dedicated to improving the quality and quantity of deal-flow in Jordan and bring 125 viable deals to the financing stage. The total budget of proposed activities is US\$6.25 million, which will be implemented over the time frame of the project.

Table 1.2. Deal Flow Creation Activities and Estimated Budget over the Project Life (6 years)

Nature of support	Ecosystem element	Target	US\$, millions
Incubation/Acceleration programs	Deal flow (startups)	New entrepreneurs and teams with promising concepts across industries and governorates seeking to start a company.	2.5
Investment readiness training and BDS grants for established high growth potential SMEs	Deal flow (existing businesses)	Established SMEs who may undertake a growth event and needs to prepare for seeking investment.	2.75
Angel investment capacity building	Ecosystem building/deal-flow	Building knowledge, investment capacity and involvement in angel investment activity	1.0

29. **Table 1.3 below provides estimated targets of entities and SMEs that will receive support.** Out of the 855 targeted entities, 825 are startups/SMEs, and the proposed success rate for an SME becoming investable is around 15 percent.

Table 1.3. Targets of SMEs/Entrepreneurs and Entities Receiving Support Under Each Program

Indicator Name	YR1	YR2	YR3	YR4	YR5	End Target
Acceleration programs: Startups received acceleration services for 4-6 months (Number)	15 (1 cohorts)	30 (2 cohorts)	45 (3 cohorts)	60 (4 cohorts)	0	150 (10 cohorts)
IR: SMEs received IR support (Number)	120	120	120	120	120	600
BDS: SMEs received BDS (Number)	10	15	15	15	20	75
Angel Investors: Prospective Angel investors received training (Number)	0	10	10	10	0	30
Total						855

30. **The ISSF will select professional service providers who meet the project criteria described in the POM to implement activities aimed at generating viable startups from all potential sectors (not exclusive to ICT).** Proposals will be reviewed and Service Contracts or partnership agreements with the best candidates will be made on a yearly basis subject to renewal based on performance and delivery of agreed outputs within the following areas (proposals that make an effort to reach women entrepreneurs/ventures will be given additional attention and consideration during the review). Partnerships with international or regional best practice programs that provide knowledge and capacity transfer to enhance quality of implementation will be part of the evaluation criteria.

31. **Coordination with donors.** The ISSF will coordinate and leverage efforts with other donors and international development organizations providing business development support to SMEs in Jordan to increase the pipeline of startups emanating from these programs. The USAID manages a US\$40 million Jordan Competitiveness program to help develop the value chain in competitive industries; The EBRD has



a TA program for SMEs, the EU is providing US\$20 million to support JEDCO's Entrepreneurship program, GIZ also has a US\$15 million Entrepreneurship TA project. In addition, the Government of Jordan is managing an export promotion project "Gen-X" with funding from DFID. The Gen-X program provides GBP25 million (US\$32 million) per year to Jordan, of which GBP5 million is allocated as TA for the promotion of SMEs.

32. **Incubation/Acceleration programs (US\$2.5 million):** Accelerate 10 cohorts of entrepreneurs, each cohort will target 15-20 entrepreneurs for a period of 4-6 months. Acceleration programs may support pre entrepreneurship programs, concept and idea creation events and competitions and offer in-kind support to entrepreneurs, including the lease of co-working spaces, mentorship, networking, and training among others; while investments and financing will be channeled through the ISSF equity or quasi equity investment scheme for successful graduates.

33. **The scope of the acceleration programs will include the following activities:**

- (a) Organize competitions and give prizes to best in class innovative concepts and ideas
- (b) Organize entrepreneurship awareness activities (for example, boot-camps, hackathons) to attract aspiring entrepreneurs to apply for the acceleration programs;
- (c) Assign coaches and mentors to advise entrepreneurs on developing their business models and business plans, with milestones for monitoring progress;
- (d) Provide specialized training (professional) to selected entrepreneurs. The objectives of this training is to help participants in launching their businesses, and in realizing minimum-viable products;
- (e) Where appropriate, lease a co-working space for entrepreneurs. It should include desks, working chairs, phone lines, and high speed internet connection;
- (f) Organize networking events for entrepreneurs, which will aim to establish networks with industry leaders and suppliers, interact with potential customers, participate at professional trade fairs and/or industry events;
- (g) Provide ongoing mentoring to a subset of the most promising teams from each cohort; and
- (h) Provide periodic follow-up reports to measure the achievement of selected projects.

34. **Eligible programs should have the following minimum qualifications:**

- (a) Demonstrated practical experience in developing and managing cohorts of entrepreneurs through business incubation/ acceleration process;
- (b) Robust acceleration methodology and approach, and practical experience in developing and conducting entrepreneurship training;
- (c) Strong online marketing experience using paper, electronic, and social media;



- (d) General understanding of monitoring and evaluation methodologies and the ability to conduct/assist in data collection and analysis;
- (e) Wide demonstrated network of experts/industry leaders to engage in the process as mentors and coaches; and
- (f) Registered as a company in Jordan, with favorable regional/ international affiliation to entities of solid experience in entrepreneurship development.

35. Investment Readiness and business development support for young ventures seeking capital and established SMEs looking for funding to substantially increase growth (US\$2.75 million).

- (a) **The Investment Readiness Assistance (IR) will target 600 young companies (up to 3 years of age) that may already have been through an incubator or accelerator, or may just have started operations.** They often still face barriers and capability gaps that stop them from being investible, however if these were addressed then investments will probably follow (this process is called ‘scrubbing’ to ‘clean’ ventures up).
 - (i) **The IR training will be delivered through a structured program.** In addition to lectures, the training methodology elements are expected to include individual and group exercises, local and global case studies, guest speakers, facilitated group discussions to encourage peer to peer learning, networking events, and mentorship and coaching (face to face and online). The training will be conducted on a monthly basis and target 8-15 businesses each time. The selected IR provider will be expected to provide the following activities:
 - Prepare an inception report describing all envisioned implementation details.
 - Prepare eligibility criteria for the program (in consultation with ISSF).
 - Develop training materials to support the fulfillment of the IR training objectives (trainers’ manual and presentation deck).
 - Conduct info sessions to guarantee take-up (in consultation with ISSF).
 - Prepare and update an online website for applications (if they do not already have web presence).
 - Screen applicants and check that they comply with the eligibility criteria.
 - Provide and supervise coaches/ mentors to support the development of growth plans.
 - Organize a graduation day for each training, where participants present their project concepts and growth plans to a panel of experts/investors.
 - Recruit and attract local, regional, and international investors to graduation days.



- Evaluate the IR training program, and provide evaluation results for every training.
 - Prepare the logistics for the various events.
 - Prepare a final report describing all implementation details, including overall evaluation of the IR training.
 - Collect the data required to conduct ongoing monitoring.
- (ii) **The professional service provider implementing the IR program must have the following qualifications:**
- Extensive experience designing and delivering IR training programs for young firms (Note: Experience adjusting and implementing IR programs for developing countries will be highly valued.)
 - Capacity to deploy the program in Jordan (for example, availability of a large pool of highly qualified mentors willing to travel, connections in the region such as local partners who can help implement the program, and so on).
 - Capacity (with ISSF) to contribute to developing a network of local and international investors for the pitch events.
- (b) **The Business Development Services (BDS) program will support the growth plans of individual existing SMEs, which require specific assistance to become ready/eligible for equity or quasi-equity investment through the ISSF.** Approximately 75 SMEs will be targeted over the timeframe of the project. Diagnostic assessments for eligible/interested SMEs will be undertaken, and these will then be used to guide the most prospective SMEs to value added business services. The ISSF will cover up to a total of US\$20,000 per beneficiary SME support.
- (i) **Eligible BDS providers.** The provider implementing the BDS activities must be registered in Jordan as a company, with at least 3 years of experience in offering business services to local SMEs (track record required), and technically qualified to offer required business development services. BSPs should fulfil the criteria below:
- Experience in managing grant programs and processes, either for government or for overseas organizations within Jordan; and
 - Capacity and systems to deliver the BDS grants program, including national reach, with the characteristics, application, administration, and follow-up activities described as follows:
 - Knowledge of and connections into Jordanian entrepreneurship ecosystem;
 - Linkages with angel investors and angel/seed funds engaged under ISSF;
 - Awareness sessions on the initiative for stakeholders, marketing, and fact sheets;
 - Development of application process and online forms;
 - Assessment, initial check of application for compliance, process for distributing to



- assessors (discussed earlier), ranking system;
 - Approval process for making final approval/denial; and
 - Assistance, payment process for successful applicants, feedback for unsuccessful applicants, project reporting, and completion (spot audit).
- (ii) **Eligible SMEs:** Eligible SMEs will be existing businesses with clear growth plans to increase productivity, introduce new product, or access a new market; and with interest to apply for ISSF's quasi equity or equity investment scheme. SMEs should fulfil the criteria below:
- A Well-defined and plausible technology or business model that could do what is claimed and be produced to sell to a market;
 - A Well-defined and plausible market and customer base who would be interested in buying the product or service which offers performance, cost or other benefits over and above those of current products or other potential market competitors;
 - The business model offers the opportunity to be scaled rapidly, and would provide a profitable surplus to give an attractive return to the financial investor;
 - Sound leadership and management team with the right skills and personal strengths of persistence and determination to continue to build a successful business and realize the value contained in the business idea; and
 - That the proposed expenditure within the project makes sense – and represents value for money (for example, proposed consultancies are relevant and related to the venture, salaries and wages are comparable to market rates).
- (iii) **Eligible activities under the Business Development element will include:**
- Strategy and business planning, finance raising, corporate governance (that is, organizational structures), succession planning, mentoring;
 - Marketing and communication strategies, including branding strategies and social media/digital strategies;
 - Production process improvement, technology upgrade;
 - Strategic Intellectual Property (IP) plans, diversification and product/service innovation and development, Research and Development planning;
 - Identification of new markets, sector analysis and market development, export strategy, including compliance with foreign laws and regulations; and
 - HR strategies and systems, training and upgrading.



- (c) **Development of the Jordanian business angel network.**³¹ The proposed business angel support will entail a suite of services to develop at least two angel groups. The package of assistance may include the following:
- (i) New group formation;
 - (ii) Network design and establishment (for example, budget, network manager recruitment, deal sourcing processes, investment criteria, standard documentation, and public relations);
 - (iii) Group manager training and mentoring;
 - (iv) Angel member training and mentoring;
 - (v) The project may also support system-level activities benefitting all Jordanian angel networks, which may include:
 - Development of common documents and guidelines;
 - Advice and documentation on investment instrument appropriate for the Jordanian market (standard equity, quasi-equity, revenue share agreements or guarantees, and so on);
 - Advice on relevant regulatory reform;
 - Diaspora investing/intergroup investing/sidecar funds; and
 - Learning and networking with overseas angel investment experts.
 - (vi) The package will aim to develop individuals and groups of angel investors who could then be 'qualified' co-investors to the ISSF, so the accreditation methodologies for both should align.

C. Project Management, Coordination, and Monitoring and Evaluation (US\$2 million Bank Loan/total budget US\$4 million)

36. The JLGC as the implementing agency will be responsible for selecting the ISSF manager, managing the project designated account (DA), ensuring the ISSF implements and reports on proper fiduciary and safeguards activities in accordance with the criteria in the POM, and managing grievance

³¹ Business angel investment has grown in importance around the world and is an increasingly important element of developing economies' entrepreneurial ecosystems. A paper by Lerner, Schoar, Sokolinski, and Wilson, entitled 'The Globalization of Angel Investments: Evidence across Countries', examines the investments of 13 angel groups across 21 countries. It compares applicants just above and below the funding cutoff and finds that these angel investors have a positive impact on the growth, performance, and survival of firms, as well as on their follow-on fundraising. The paper found that the positive effects of angel financing were independent of the level of venture activity and entrepreneur friendliness in the country. Angel groups were based in Argentina, Australia, Belgium, Canada, China, Germany, Italy, Mexico, New Zealand, Switzerland, the United Kingdom, and the United States.



redress.

37. **Project management cost will also fund the ISSF and all its operational and administrative costs for the management and supervision of the project.** Project resources will also support training, capacity building activities, marketing, analysis/assessment of the ecosystem, coordination with other donors and programs, citizen/client engagement and outreach in different regions, website, conferences as well as operating and legal expenses including fiduciary, safeguards, and M&E.

Figure 1.1: Indicative ISSF Investment process*



*This is indicative and the team who runs ISSF will need to adapt and adjust to work for them

38. **The World Bank will train ISSF staff and consultants involved in the project to perform reporting on FM and safeguards guidelines as needed.** Additional local training may also be offered to refresh or extend competences in technical areas wherever necessary for efficient implementation of the project.



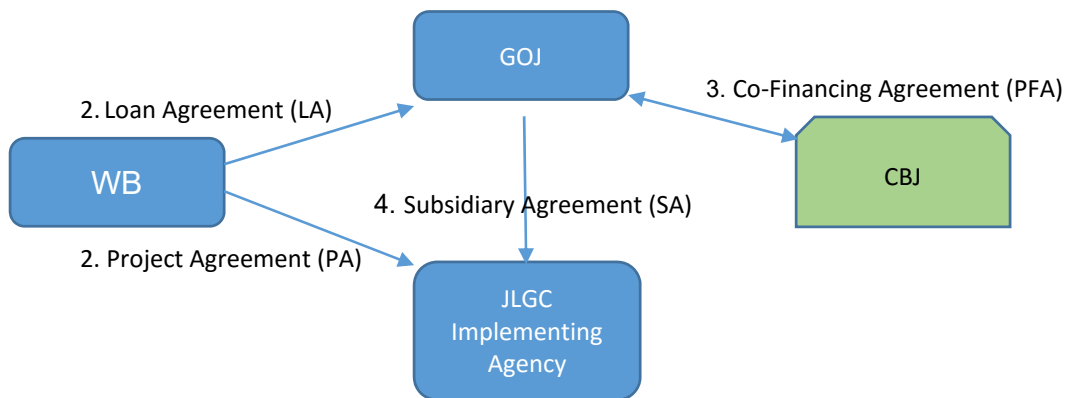
ANNEX 2: IMPLEMENTATION ARRANGEMENTS

COUNTRY: Hashemite Kingdom of Jordan
Innovative Startups Fund Project

Project Institutional and Implementation Arrangements

1. The ISSF Fund will be created as a Special Purpose Vehicle (SPV) under the supervision of the Companies Comptroller which supervises all private corporations. To encourage private sector participation and to promote transparency and commercial implementation, it was agreed that the ISSF would be implemented through the JLGC which would act as the local sponsor of the project. The legal agreements that will be signed to make the project effective are as follows:
2. The Ministry of Planning and International Cooperation (MOPIC) will sign the Loan Agreement (LA) and receive the World Bank loan on behalf of the government of Jordan (GOJ) who will be responsible for repayment of the loan to the World Bank;
3. The World Bank will sign a Project Agreement (PA) with the JLGC as the entity responsible for implementing the project in accordance with the LA and POM.
4. MOPIC will sign a Co-Financing Agreement (CFA) with the CBJ with regards to the Co-Financing that the CBJ will provide to the project; and
5. MOPIC will sign a Subsidiary Agreement (SA) with the JLGC as the implementing agency.

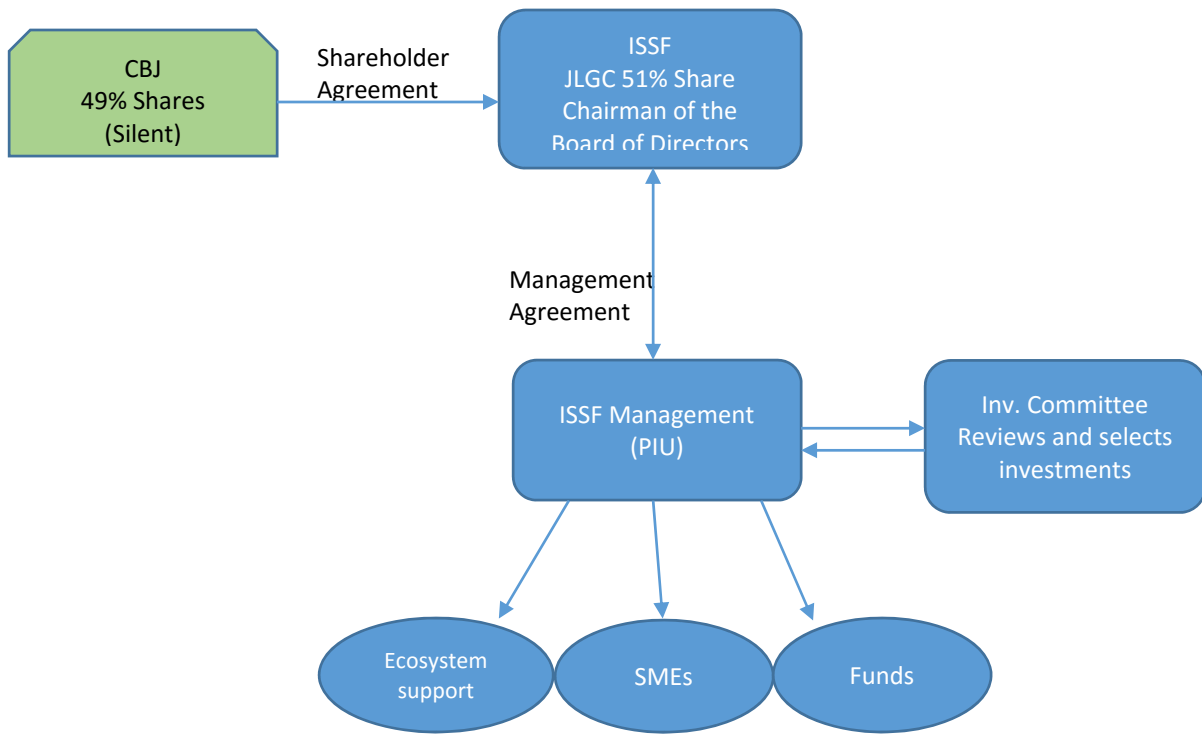
Figure 2.1. Legal Arrangement



6. **The JLGC will hold the shares in the ISSF on behalf of the Government until assets are liquidated and any remaining proceeds returned to the government.** The JLGC would be legally responsible for establishing the Fund, and will be the Executive Board Member and Chair responsible for supervising the ISSF and ensuring implementation in line with the requirements of the World Bank including the hiring of a qualified Manager who will be responsible for implementation of the project activities, monitoring and evaluation, fiduciary and safeguards management and reporting.



Figure 2.2. Institutional Implementation



7. **The JLGC will put in place the necessary controls to ensure that the implementation of the project is subject to strict independent private sector led oversight and a transparent and professional investment strategy.** These include the establishment of a Board of Directors represented by the private sector, and the establishment of an independent IC comprised fully from private sector experts who will, as delegated to it by the BOD, decide on the selection of investments and sanction exits presented by the ISSF management team. The JLGC will not be involved in the selection of investments. A management agreement will be signed by JLGC and the selected Manager for the ISSF outlining respective responsibilities of JLGC for all supervision and the ISSF's manager for making and managing investments and supplying the necessary information and reports to the JLGC and the World Bank.

8. **The ISSF will be the de facto PIU in charge of all project operations and preparation and submission of required reporting.** The ISSF manager will report to the JLGC as the Chairman of the ISSF. The JLGC will be the implementing agency vis-à-vis the Project loan and will incur costs prior to the establishment of the ISSF and selection of the manager such as costs for the bidding, evaluation and selection process of the ISSF manager, legal, administrative expenses, and costs for establishment of the ISSF. The JLGC will also incur costs in the management of the project Designated Account (DA), managing redress issues, and in ensuring that proper fiduciary and safeguards reporting is submitted to the World Bank. Project funds from the ISSF may be used to reimburse the JLGC for these costs.

9. **The Fund Manager will be acting as the Asset manager of the ISSF and will be paid a management fee and performance fee designed to reinforce the culture of success where the Fund Manager is rewarded most clearly by the successes of the fund in appreciating capital values.** The Fund



Manager's fees will apply 2 elements:

- (a) **Element 1: Attractive professional fee for service.** This fee will help to ensure that the Financing Program (through its financing windows) attracts experienced professionals who bring significant value added to the Project. Selection criteria will emphasize experience and long term commitment.
- (b) **Element 2: Staged milestone payments.** These payments are divided into 3 stages to reflect the various balances of work and achievements required for different stages of work and targets. The three stages are:
 - (i) Stage 1: Set up of operations. This includes the staffing of the appropriate ISSF staff and ensuring the ISSF is fully operational no later than 4 months after project effectiveness including, but not limited to: training of staff; active promotion of the ISSF; and formal or semi-formal association with funds and ecosystem support for the financing and deal flow activities. (This will be a disbursement condition).
 - (ii) Stage 2: Conclusion of investment deals. This includes a bonus structured as a percentage from the amount of private capital the ISSF leverages.
 - (iii) Stage 3: Success fee/Carried Interest: This final stage is when the ISSF is wound up and the value of the appreciated investment assets is realized. This is the main reward element and relates to the increase in investment values that have been created through the life of the project. This is usually structured in the form of a percentage of the profit.

10. Selection process and Criteria for the ISSF manager

- (a) **The manager must exhibit:** (a) the capacity to properly evaluate investment opportunities in SMEs; (b) capacity to offer mentoring and other support that innovative young SMEs typically need; and (c) not have any criminal record or be included in the World Bank's blacklist database.
- (b) **Prospective managers and key fund individuals must not be under any material litigation, proceedings or regulatory inquiries during the last three years.** The tender process will also clearly outline selection criteria and weights assigned to each criterion. Selection criteria listed below emphasizes experience and long-term commitment. To maximize the positive effects of the project, selection criteria for the funds will include consideration of the extent of financial leverage they offer.
- (c) **The selection criteria will assign weights on the following:**
 - (i) Letter of intent from prospective private shareholders.
 - (ii) Committed capital by fund manager and other private investors.
 - (iii) Quality of investment team and experience in well-established early-stage VC markets.



- (iv) Investment management track record.
- (v) Experience and skills of the proposed team in investing, managing, and exiting early-stage and VC investments.
- (vi) Proposed investment and exit strategy, consistent with objectives of program, including:
 - potential pipeline;
 - level and structure of management fees; and
 - exit strategy.
- (vii) Linkage and operational framework with the broader entrepreneurship ecosystem
- (viii) Location of management team, such that the fund can effectively invest in, and work with, local entrepreneurs in Jordan

Financial Management

11. **Implementation Arrangements and Staffing:** The JLGC will be managing the overall coordination of the Project implementation, while the day-to-day FM and disbursement functions will be managed by the ISSF. The JLGC was established as a public shareholding company in 1994 with a paid up capital of JD 7 million to provide guarantees to commercial loans for SMEs. In 1997, the capital increased to JD 10 million to cover exporter's credit and encourage SMEs venture outside Jordan. The JLGC has experience working with the World Bank Group, both the IFC and IBRD, through the MENA Regional MSME TA facility supporting the JLGC in risk management, business and product development however, this will be the first time that the JLGC manages a World Bank Investment Project Financing (IPF).

12. **Using the ISSF, as a Special Purpose Vehicle, will enable JLGC to ring-fence the equity shares from its current Credit Guarantee Program** until such a time when the final proceeds will be liquidated and returned to the GOJ. The ISSF is required to maintain, among other things, appropriate and adequate financial management systems, including records, accounts and financial statements, which adequately reflect the operations, resources and expenditures of the Project. Once the ISSF is established, a FM assessment will be conducted by the World Bank FM team to confirm that the ISSF maintains the adequate financial management assessment for the purpose of the project. The ISSF team will include a full-time Chief Financial Officer financed from the loan proceeds and will work under the supervision of the ISSF General Manager. On the other hand, due to capacity constraints the JLGC will need to hire a part time Senior Accountant financed by the project to closely coordinate with the ISSF Financial Officer on financial and disbursement aspects of the Project.

13. **Project FM risk:** Based on the results of the preliminary assessment, the overall FM risk is "High". With mitigation measures in place, the project will have acceptable project FM arrangements and FM residual risk rating will be "Substantial". The FM risk is assessed as "Substantial" mainly due to: (a) complex financial transactions; (b) various investments instruments will be used for this project, (c) multiple reporting lines between entities, iv) funds might not be disbursed in accordance with loan agreement or toward the project purpose or not reach targeted end beneficiaries.



14. **The following measures are proposed to mitigate FM-related risks:**

- (a) A qualified and competent Chief Financial Officer (FO) will be hired by the newly established ISSF to handle the day to day recording, disbursements and transfers to other entities, along with maintaining a reliable financial system. A Senior accountant will be hired by JLGC to maintain the Designated Account, submit the withdrawal applications and Interim Unaudited Financial Reports (IFRs) to the World Bank.
- (b) The flow of funds process will be undertaken by JLGC through a Designated Account (DA) to be opened for the project at a commercial Bank accepted by the World Bank. A subaccount in Jordanian Dinars will be opened and maintained by the ISSF;
- (c) JLGC will closely monitor the project implementation, including FM and disbursement activities, and standard supervision of ISSF's sustainability of operations;
- (d) Under Management Agreement, the ISSF function and operations will be for no other purpose than to invest in (and conduct related exits) and hold the equity investments as selected by the Investment Committee, in accordance to the criteria in the Project Operation Manual (POM) and monitored by the JLGC;
- (e) Project activities will be co-financed by the World Bank and the Central Bank of Jordan, and the accounting system will capture the respective financing percentages for a double fold purpose: (i) forecast required cash withdrawals from the co-financiers; (ii) to capture the respective prorated share of expenditures per the legal agreement.
- (f) A POM will be prepared and will include an FM chapter. The FM chapter will detail the financial management policies and procedures to be established at ISSF for carrying out its equity or quasi equity co-investment activities, innovation costs and support to the deal flow creation activities. The chapter will also define, among other procedures, the roles and responsibilities and inter-agency relationships (JLGC with ISSF). JLGC shall cause the ISSF to adopt the POM;
- (g) An independent investment committee (IC), will be established, consisting of independent investment experts in the field of entrepreneurship and will be deciding on the beneficiaries for the equity investments component based on the financial analysis conducted by ISSF and the selection criteria established in the POM. This will also include the investment committee to set the investment and exit strategies;
- (h) Acceptable accounting system will be purchased and used by ISSF to capture the financial transactions and generate the quarterly IFRs;
- (i) ISSF will generate and submit quarterly IFRs on the equity investments and other project related activities to JLGC for consolidation with the project activities that are carried out by JLGC for quarterly submission to the World Bank;
- (j) Simple FM assessments will be conducted for support providers to ensure they maintain acceptable FM systems are available;



- (k) ISSF will appoint an acceptable external auditor within six months of project effectiveness, as per Terms of Reference (TOR) acceptable to the Bank, to audit the Project financial statements. The audited annual project financial statements will be publicly disclosed. The audit fees will be covered by the loan proceeds;
- (l) ISSF will hire an internal auditor who will be reporting to the Board of Directors during the first year of project implementation. The terms of references (TORs) of the internal auditor should be acceptable to the World Bank and submitted prior to hiring the internal auditor. The internal auditor will also work in coordination with the compliance officer of ISSF. The loan proceeds will cover the costs of the internal auditor;
- (m) A consultancy firm will be hired by the ISSF, or the hired external auditor's scope will be expanded, to perform annual "Agreed Upon Procedures (Review)" of beneficiary (seed, early-stage, VC, start-ups, accelerators, angel networks, crowd funding platforms, and the like).

15. **Budgeting and Funds Flow:** A project budget and periodical disbursement plan based on, the estimated financing to planned equity investments, innovation costs, and financial support, will be developed by the ISSF, and will be reviewed and verified by JLGc before submitting to the World Bank as part of the quarterly IUFrs. It will be used as a monitoring tool to analyze budget variances and manage cash and will feed into the quarterly IUFrs. To ensure that funds are readily available for project implementation, a US Dollar DA, to be managed by JLGc, will be opened at a commercial bank acceptable to the World Bank. Deposits into and payments from the DA will be made in accordance with the Loan Disbursement Letter. JLGc will prepare withdrawal applications with the related required supporting documents, signed by the designated signatories. The flow of funds and interagency relationships will be detailed in the POM.

16. **Equity/ Quasi Equity Capital Investments:** For the purpose of implementing the project relating to the equity investments component, the ISSF to be established by the JLGc, will assume the role of the managing shareholder. The day to day investments operations in equity capital will be managed by the ISSF. Funds will be transferred from the project DA by JLGc to the ISSF bank account for making the investments in the venture capital once selected by the IC in accordance to the POM investment selection criteria and conditions. It must meet the financial requirements to conduct and manage investments acceptable to the World Bank as indicated in the POM. This may include if applicable (companies with 2 years of operations) having in place a sound financial systems and audited financial statements by an auditor licensed from the Jordanian Association for CPA (JACPA) and not have adverse or disclaimer audit opinions for the last three years. The returns/profits on investments as well as the proceeds of selling/liquidating the investments will be deposited in a separate bank account to be opened at a commercial bank for a different purpose than that of the Project's DA and would be used based on agreement with the CBJ and the government.

17. **Project will finance eligible investments in eligible entrepreneurship and innovation initiatives.** It will provide equity investment in Seed (investment ticket size (ITS) below US\$280,000); early stage (ITS US\$280-000 – US\$750,000); and VC (ITS US\$750,000 - US\$3 million). The ISSF will provide partner funds a non-reimbursable amount to cover the costs needed to ensure the success of innovative young companies at a maximum of US\$100,000 per partner fund. Fund managers applying for a capital investment or co-investment from the ISSF will present a proposal providing the rationale for the costs based on their



investment strategy and potential pipeline.

18. **Deal-Flow Creation Financing:** The Investment Readiness Assistance will focus on providing training on the technical and administrative aspects for startups to become investment ready and providing firm-level business development services (BDS) to existing businesses that require specific advisory/ technical assistance to become investment-ready for the ISSF equity or quasi-equity programs. Professional service providers will be contracted/ outsourced to carry out agreed upon activities based on clear programs and deliverables for all the deal flow activities, including the acceleration programs, the business development services, and the development of angel investor networks.

19. **Project will also finance support to ecosystem development activities through funding for ecosystem agents to incentivize their implementation of innovative activities that catalyze deal-flow creation in Jordan.** The eligibility criteria for funding will be detailed in the POM. To receive the funding, the support providers will be subject to an FM assessment to ensure that they maintain acceptable basic FM systems.

20. **Project Management Costs:** these costs will comprise of costs of establishing and managing the ISSF. The salaries and benefits of the ISSF officers/staff will be in accordance with consulting contracts, and the operational costs (as will be defined in the Loan Agreement) will include the operation expenses for maintaining and running the ISSF during the project life, in addition to the agreed expenses that will be incurred by the JLGC in relation to the project. For costs incurred by the JLGC in its role as the implementing agency the JLGC will be reimbursed directly from the World Bank retrospectively for costs incurred prior to project effectiveness and will be charging recurrent costs related to the project by withdrawing directly from the DA.

21. **Selection Process and Oversight:** A clear transparent governance structure and accountability measures will be specified in the POM specifically with regards to the review, due diligence, and selection process of investments. These measures must embody the principles of responsible governance, equity and transparency by assuring the independence of the selection process from the application or review process, eliminating the risk of capture by select groups and thorough filtering, and accountability measures of the investment decision-making bodies.

22. **Accounting and Reporting:** For the purpose of the project's FM implementation, the ISSF will establish and implement an adequate accounting system that is capable of recording and processing the project's transactions, produce quarterly and semiannually project IFRs, and annual project financial statements in compliance with the cash basis of accounting and International Public Sector Accounting Standards (IPSAS). The system may also need to be capable of recording transactions on the accrual basis for the ISSF's internal use. The accounting system should be set up and running by 180 days from effectiveness. The quarterly IFRs will consist of "Statements of Cash Receipts and Payments by category and by component," and accounting policies and explanatory notes. These Statements will include footnote disclosures on schedules, as follows: (a) "a detailed statement of equity investments in companies (seed, early-stage, VC, start-ups, accelerators, angel networks, crowd funding platforms, and the like); (b) Reconciliation Statement for the balance of the Designated Account; and (c) cash flow projections for the following 6 months.

23. **The said reports will be submitted by the ISSF to the JLGC within 30 days and subsequently transmitted to the World Bank within 15 days – that is 45 days after the end of the respective quarter.**



24. **Companies (seed, early-stage, VC, start-ups, accelerators, angel networks, crowd funding platforms, and the like); should maintain basic acceptable financial management systems.** Those systems should adequately support the operations of those companies and report on its activities. Unaudited semiannual basic financial reports should be submitted to the ISSF to monitor the financial performance of those companies.
25. **Internal controls.** The Project’s expenditure cycle will follow the controls specified in the financial management chapter of the POM that describes the roles and responsibilities of ISSF and JLGC in relation to FM, disbursement and flow of funds, information, and documentation. The FM Chapter will include, but not limited to: (a) Financial and Accounting Policies; (b) Roles and responsibilities, including payment authorizations; (c) Direct and indirect investment procedures; (d) project management costs; (e) advances, receivables, and payables; (f) Cash management; (g) Budgeting and financial reporting; (h) coordination with internal and external auditing; (i) forms and templates. The ISSF will be responsible for setting an internal control system designed to provide reasonable assurance regarding the achievement of operational objectives as well as accurate and reliable financial reports, in compliance with applicable laws and regulations.
26. **Special Purpose Review:** A consultancy firm will be hired by the ISSF, or the external auditor’s scope of work will be expanded, to perform annual “Agreed Upon Procedures (Review)” of beneficiary (seed, early-stage, VC, start-ups, accelerators, angel networks, crowd funding platforms, and the like) or the external auditor’s scope of engagement will be extended to cover this assignment. The main purpose of this review is to provide an opinion on the compliance of ISSF to make investments based on the approved selection criteria, due diligences carried out, and the investment exit methods applied. The Special purpose review will also report on the effectiveness of the internal control system related to the financial transactions and financial reporting.
27. **Internal Auditing Arrangement:** ISSF will be responsible for appointing/hiring an internal auditor during first year of project implementation, who will be reporting to the Board of ISSF. An effective and strong TORs for a modern internal audit function acceptable to the WB will be submitted to the Bank’s non-objection.
28. **External Auditing Arrangements:** The JLGC will cause the ISSF General Assembly to select and engage an independent qualified external audit firm, acceptable to the Bank, which will undertake annual audits of the project financial statements. The project audit reports and management letters will be submitted within 6 months after the end of the audit period. JLGC will be responsible for preparing the Terms of Reference (TOR) for the auditor and submitting them to the World Bank for clearance.
29. **The auditor will be requested to provide an opinion on whether the ISSF was in compliance with the eligibility investment criteria in selecting the beneficiary companies as stipulated in the POM.** Furthermore, the audit should express an opinion on the Project’s effectiveness of internal control system. Finally, a management letter shall accompany the audit report, identifying any deficiencies in the control system the auditor finds pertinent, including recommendations for their improvement.
30. **The Venture Capital/ Funds/ Intermediaries the project has invested in or is financially supported will be required to submit annual audited financial statements to the ISSF.** Financing agreements between the ISSF and investees/beneficiaries will include clauses on the submission of external audit reports.



31. **Capacity Building on International Accounting and Financial Reporting:** given the importance of proper accounting and financial reporting by SMEs, this project as part of its implementation, will deliver training, workshops, and seminars for external auditors, finance managers of SMEs, and other stakeholders on financial reporting, accounting standards, and other relevant topics. Building capacity on international financial reporting standards and application of international accounting standards are key pillars of sound corporate governance, required to build investor confidence and support a strong business climate with consequent positive impacts on competitiveness and economic growth.

32. **Training and Implementation Support:** The WB will provide training to the ISSF and JLGC FM staff on WB FM and disbursement guidelines and procedures and will provide FM implementation support during project supervision.

33. **Grievance redress mechanism.** A well-designed grievance redress mechanism can help improve service delivery and enhance overall project effectiveness. It can also help ensure the transparency and accountability of the Project, and serve as an early warning mechanism before FM and other problems become serious. A three-level grievance redress mechanism will be established by the JLGC.

Disbursements

34. **JLGC will initially request a reimbursement for the agreed incurred expenses before project effectiveness.** JLGC will also request an initial advance to the DA for the project to start disbursements toward implementation. Disbursements from the World Bank to JLGC will be based on quarterly IFRs, which will provide actual expenditure for the preceding quarter (three months) and cash flow projections for the next two quarters (six months). All supporting documentation will be retained at JLGC. They will be kept in a manner readily accessible for review by Bank missions and internal and external auditors.

35. **JLGC will transfer funds from the DA to ISSF company account based on periodic cash forecasts** that will include among others the expected investment payments to be made during the foreseen period. For expenditure documentation purposes, the World Bank will consider the investment certificates and transfer slips/ receipts as the basis for disbursement and proof for payments made to investees in return for equity/quasi equity shares.

36. **To ensure that funds are readily available for project implementation, a DA will be opened for JLGC in United States Dollar (US\$).** DA Authorized signatories, names and corresponding specimens of their signatures will be submitted to the Bank prior to the receipt of the first Withdrawal Application.

37. **The project will follow an Interim Unaudited Financial Reporting (IUFR) based disbursement method.** Table 2.1 below indicates the expense categories, loan allocations and financing percentages for each component.

38. **The Bank will honor eligible expenditures completed, services rendered and goods delivered by the Project closing date.** A four months' grace period will be granted to allow for the payment of any eligible expenditure incurred before the Loan Closing Date.

39. **The operating Costs comprise of:** reasonable and necessary operating expenditures incurred by the ISSF on account of Project implementation, management and monitoring, including office rental and



maintenance; operation and maintenance of office equipment; stationary, office supplies and utilities; office consumables; office administration including translation, interpretation, printing and advertising, communication costs, costs associated with the production of bidding documents; reasonable commercial bank charges; reasonable and necessary transportation and travel costs of members of the PIU, Investment Committee and of Grant Evaluators; fees related to the establishment and operation of the ISSF, maintenance, insurance and fuel of vehicles; costs of carrying out meetings and any other miscellaneous costs directly associated with Project implementation, all based on periodic budgets acceptable to the Bank, but excluding salaries or honoraria of officials and employees of the Borrower’s civil services. This will include also the JLGC project related operating costs agreed with the World Bank.

Table 2.1. Action Plan - Financial Management

	Action/Condition	Date due by	Responsible
1	Hire a Chief Financial Officer	Before disbursement of funds by WB	ISSF
2	Hire a part time Senior Accountant	Within 3 months of project effectiveness	JLGC
3	Establish a financial and accounting system	within 6 months of project effectiveness	ISSF
4	Appoint external Auditor(s) for the Project	Within 6 months from Project effectiveness	ISSF
5	Hire an Internal Auditor	Within 12 months from Project effectiveness	ISSF

Procurement

40. **Implementing agency:** The Central Bank of Jordan is a shareholder of 49 percent of JLGC and the rest belongs to other banks in Jordan. The JLGC aims to provide the necessary guarantees to facilitate financing of SMEs and national export, to contribute to the process of economic growth, job creation and national export encouragement.

41. **Project design:** A funding facility called the “Innovative Startups and SMEs Fund” (ISSF) will be created under the Project. The ISSF’s objectives will be to co-invest equity and/or quasi equity capital with private investors in seed early stage and growth/Venture Capital (VC) stage companies and to support entrepreneurs/ SMEs to become investor ready, as well as improve the quality and variety of services provided by intermediaries and networks dedicated to the creation of deal-flow in Jordan. The implementing agency responsible for the setting up and supervision of the ISSF is the Jordan Loan Guarantee Corporation (JLGC). JLGC will be selecting a manager for the ISSF, and ensuring that project implementation, and reporting are conducted in accordance with the criteria established by the World Bank in the Project Operations Manual.

42. **Project component:**

(a) Component 1, shall finance the following:

(i) **US\$53.5 million (of which US\$44.75 million is World Bank financing) in Equity/quasi equity financing.** Under this activity the ISSF is expected to invest in approximately 200 companies balanced between the three high risk enterprise stages roughly categorized as:

Seed (investment ticket size (ITS) below US\$280,000); early stage (ITS US\$280,000 – US\$750,000); and VC (ITS US\$750,000 – US\$2 million). The transactions of this component will not trigger the Bank’s procurement framework.

(ii) Post investment support to intermediaries and partner funds. The ISSF will cover the costs that fund managers and co-investor partners incur to ensure beneficiary startups receive the critical support that they need. The transactions of this component will not trigger the Bank’s procurement framework.

(b) Component 2, shall finance the following:

(iii) **US\$6.25 million (of which US\$3.125 million is World Bank financing) in Deal-flow creation.** The transactions of this component will not trigger the Bank’s procurement framework.

(c) Component 3, shall finance the following:

(iv) **US\$4 million (of which US\$2 million is World Bank financing) in Project management costs over the first six years.** JLGC will need to select the ISSF manager who will recruit the ISSF team. The allocated amount will also be used for operating cost of the ISSF as well as the recruitment of consultants and purchase of office supplies, equipment and furniture and other services incurred by the JLGC in its role as the implementing agency.

43. **Procurement capacity assessment:**

(a) Legal framework: JLGC is established under commercial basis and is not bound by public procurement and is not subject to the review of a public oversight entities (for example, audit bureau). The procurement procedures are provided in the Financial Manual of the institution; and an operation manual is developed covering the processing of procurement.

(b) Procurement Methods: The methods are as per below thresholds:

Table 2.2. Procurement Methods

Direct Contract	For below 100JD
3 quotations	For up to 10,000JD
Bidding	For above 10,000JD

(c) Procurement decisions for goods and consulting services: The Board has an oversight on procurement of goods above JD20,000 and Consulting services above JD5,000, as per below table:

Table 2.3. Decision Authority

Category	Decision	Contract Amount
Goods	Director general	Up to 2,000JD
	Direct general, upon recommendations of a secondary procurement committee	Up to 20,000JD
	Board, upon recommendations of a principal procurement committee	Above 20,000JD
Consulting Services	Director general	Up to 5,000JD
	Board, upon recommendations of a principal procurement committee	Above 5,000JD



- (d) Procurement envelop and planning: JLGC doesn't process significant procurement, and usually the purchase orders are related to office supplies and equipment. As an example, for year of 2016, the volume of procurement is of JD100,000. Procurement planning is observed, and is based on quarterly planning using the allocated budget. Standards Contract templates are also used.
- (e) Complaints: Complaints related to the services provided by JLGC are usually referred to the Associations of Enterprises and to Central Bank of Jordan. No mechanism is put in place for procurement complaints.
- (f) Reporting: JLGC discloses quarterly and annually (and additionally for any material event) periodic reports to the Jordan "Securities and Exchange commission" and the "Stock Exchange". Their Independent External Audit report is also online. Reports are online, on JLGC website <http://www.jlgc.com>.
- (g) Audit: JLGC has an internal audit, an internal risk management and also has appointed Grant Thornton as an External Auditor.

44. **The overall procurement implementation risk is assessed as Moderate.** The implementing agency JLGC general assessment determined that established procurement of this institution follows the core procurement principles as defined by the World Bank. The project will apply Bank's procurement Framework only for the appointment of a management firm or alternatively selection of the manager of the ISSF who will appoint the ISSF team, as well as purchase of simple office supplies and equipment for the ISSF to make it operational as a PIU. However, given the importance of this selection and how it affects the whole implementation, the procurement risk is increased to "Moderate". To reduce the identified risk, the following mitigating measures are proposed: (a) arrange for appropriate support (staff, training, tools) to handle procurement management at least until selection of the management consultant; (b) ensure proper contract management by the implementing agency; (c) establish a system to monitor and expedite ISSF contract modifications; and (d) agree on appropriate publication (that is, on a website or press bulletins) of procurement decisions and other relevant information as minimum.

45. **Proposed Procurement Arrangements**

- (a) Procurement regulations: "World Bank Procurement Regulations for Borrowers under Investment Project Financing" dated July 1, 2016 ("Procurement Regulations"), will be applied for the project. In particular, for office supplies and the selections related to the ISSF, the usage by JLGC of the selection arrangement under "Commercial practices" as described in the section 6.46 of the above regulations. The Commercial Practices refers to the use of well-established procurement arrangements used by the private sector (normally entities not subject to the Borrower's public procurement law), for the procurement of Goods, Works, or Non-Consulting Services. The following Bank's Core Procurement Principles are the standard for determining the acceptability of Commercial Practices: value for money, economy, integrity, fit for purpose, efficiency, transparency and fairness.
- (b) The project procurement activities are by nature not sophisticated. JLGC is expected to select a project manager who will be appointing a team. In addition, purchase of office supplies and furniture will be incurred as needed by the ISSF.



- (c) Procurement methods for goods, non-consulting service and consulting services will follow the established Commercial Practices of JLGC.
- (d) Staff: The procurement function for the hiring of the ISSF manager and services related to the role of JLGC as implementing agency is assigned to the Procurement Specialist in JLGC. Procurement qualifications align with the current position requirements. Technical support of JLGC shall be needed for assisting the procurement staff in the evaluation and selection of ISSF manager and team members. The implementing agency shall be liable in managing the contracts of the ISSF manager and the ISSF team. Alternatively, the implementing agency may choose to delegate the contract management of the ISSF staff members to the ISSF manager.
- (e) Project Operation Manual (POM): Once established, the ISSF will need to draft an operation manual to include a procurement section in line with the procedures observed by JLGC. The manual will be specifying the procurement processing and contract management. It will comprise the standard templates that shall be used in the project. It will also tackle the record-keeping requirements and the complaint mechanism expected arrangements.
- (f) Procurement plans: The procurement plan of the project will be needed to schedule and determine the project activities in relation with the ISSF set up including the hiring of the ISSF manager.
- (g) Frequency of supervision mission and post procurement review is foreseen respectively twice and once yearly.

Environmental and Social (including safeguards)

46. **It is anticipated that the majority of sub-project investments supported in this Project will be in the services or technology sphere, with no-to-limited associated environmental or social risks.** However, it is recognized that there may be some investments (for example, renewable energy, pharmaceuticals, agro-business) in which the environmental and social risks may be identified. Due to the young age and size of SMEs, limited physical or economic production is expected during the World Bank project implementation period. Sub-project screening will exclude any sub-project which would require land acquisition, loss of land use, or economic displacement. Hence, a resettlement policy framework is not required.

47. **Under Jordanian Environmental Law 2006/No. 52, private companies are to undertake an Environmental and Social Screening process.** ISSF participating companies would need to be classified according to their potential impacts and appropriate mitigation/rehabilitation measures required. Given the low environmental and social risk of the project, the screening will be done using country systems through the Ministry of Environment. The initial screening form will provide for exclusion of any investment which merits the application of OP 4.09 Pest Management, OP 4.11 Physical Cultural Resources, or OP 4.12 Involuntary Resettlement. The initial screening form will not screen for the possible application of OP 4.04 Natural Habitats, OP 4.10 Indigenous Peoples, OP 4.36 Forests, OP 4.37 Safety of Dams, OP 7.50 Projects on International Waterways, or OP 7.60 Projects in Disputed Areas. Natural habitats, forests, dams, and so on do not exist within the geographical range of possible ISSF locations.

48. **Moreover, the JLGC has strong knowledge of private sector business responsibilities to comply**



with Ministry of Environment and Ministry of Labor laws relevant to SMEs, and will hold accountability for ensuring that the ISSF's SME screening and funding process incorporates Frameworks commensurate with the World Bank Policies.

49. **An Environmental and Social Management Framework (ESMF) has been developed to ensure that the project activities are compliant with the relevant requirements of national policies, regulations and legislations as well as the World Bank Group (WBG) relevant Operational Policies and Procedures (OPs).** The ESMF provides a practical processing tool for various stages, including monitoring of environmental and social aspects. An Environmental Specialist (ES) consultant will be retained by the ISSF and will report to the ISSF Manager for:

- (a) Conducting post-review audits of sub-projects with ESMPs for quality assurance;
- (b) Designing and conducting necessary training; and
- (c) Preparing annual safeguards monitoring reports in a timely manner.

50. **The ISSF will include a section on safeguards compliance in each progress report which will be submitted to the Board of Directors and JGLC. The JGLC will transmit progress reports to the World Bank.** A template safeguards monitoring framework is included in Annex 5 of the ESMF.

51. **As most-to-all funded SMEs are not expected to start physical/economic operations prior to the close of this ISSF project,** monitoring will consist of design-phase screening, ESMF documentation, Ministry of Environment approval, and ESMF document disclosure.

52. **The performance indicators will be monitored and reported on by the ISSF environmental safeguards consultant to monitor compliance on the ESMF:**

- Subproject screening forms reviewed by ES as a percentage of total subprojects cleared for ISSF funding;
- Subproject screening forms cleared by ES as a percentage of total subprojects cleared for ISSF funding;
- Subprojects with filed ESMPs, as a percentage of total subprojects with category B/II classification;
- Subprojects with filed Ministry of Environment approvals, as a percentage of total subprojects with category B/II classification.

53. **Additionally, a part-time consultant housed in JLGC will be responsible for overall follow up and monitoring of the project, including liaising with the Board to resolve complaints.** Documentation of the complaints will include:

- Number and types (categorization) of complaints registered
- Percentage of complaints resolved in a timely manner



Monitoring and Evaluation

54. **The primary responsibility for tracking results is with the Financial Intermediaries and Ecosystem Support Providers implementing the activities.** They will present an M&E report twice a year to the ISSF at the JLCG. The ISSF will be responsible for submitting a consolidated M&E report to the WB also on a semi-annual basis. Results monitoring will be based on qualitative and quantitative information collected from Project beneficiaries, investors and fund managers. Fund Managers and firms that receive financing from the project funds as well as those benefiting from the ecosystem support activities will be obliged in their contracts to provide information twice a year.

55. **In addition to the Results Framework, fund managers will also monitor and report on specific indicators of beneficiary profile and performance.** The objective is to measure any additional value added from the project not captured in the Results Framework, such as indicators on employment creation by beneficiaries (by gender and age), and exports. This information will be provided by beneficiaries twice during the life of the project, according to the contract signed between the fund manager and the beneficiaries.

56. **The Project’s M&E framework will follow international best practices.** The broad elements of the Project’s M&E framework will follow guidelines used for the assessment of similar international interventions such as those in Scotland and Denmark as well as similar WBG financed projects in Lebanon and Morocco. It includes three levels:

- (a) Results indicators and Monitoring Framework (See Section VII above); the Results Framework builds on the core indicators and the intermediate results sought from each component. It includes indicators in leveraging private sector investment in Seed, early stage and venture capital and the impact of the project on start-ups and early stage enterprises in terms of their access to finance and growth; as well as indicators that link to activities to develop the ecosystem.
- (b) A survey assessment of Component 1 investment strategy and performance of investee companies (tables 2.4 – 2.6 and box 2.1 below); the assessment of the investment strategy and firm performance will be based on information gathered from beneficiary firms (for example, revenues, operating margin, employment and exports). See questionnaire below for reference. For information purposes and as part of the broader M&E framework, the project will track the number of displaced legal residents (including Syrian refugees with work permits) currently living in Jordan that benefit from the project either as entrepreneurs or through jobs created through the project.

Table 2.4. Beneficiary Profile Data (example template)

Name of SME/Start-up	
Name of the owner(s)	



Name of SME/Start-up	
Gender of the owner(s)	
Nationality/residency status	
Sector in which firm operates	
Geographic area of operation	
How much financing did the firm apply for?	
How much equity or quasi-equity financing did the firm receive?	
Did the firm apply for a loan under the program?	
Did the firm receive the loan? If not, please explain	
Did the firm receive financing other than this fund? If yes, please specify type (debt, credit guarantee, grant, equity), before or after receiving equity from this fund, and source (bank, family, nongovernmental organization, angel, other public program, and so on)	
Does SME produce and report annual FS?	
Has the firm applied for a patent since establishment?	

Table 2.5. Beneficiary Performance (example template)

Beneficiary Performance	Unit of Measure	Baseline	Cumulative Values					Frequency	Data Source
			YR1	YR2	YR3	YR4	YR5		
Revenues	US\$								
Operating margin	%							Annual	Survey
Exports (if any)	US\$							Annual	Survey
No. of full-time and part-time employees	Number							Annual	Survey
Of which % women	%							Annual	Survey
Of which % youth (age < 35 years)	%							Annual	Survey
Of which % are displaced Syrians with legal work permits	%							Annual	Survey
Total private investment in beneficiary SMEs	US\$, thousands							Annual	Survey

Table 2.6. Innovative Practices in Beneficiaries (example template)

Do you currently have any international accreditations and certifications for quality? (Please describe.)	
Do you have plans to obtain accreditation/certification in the next 3 years? (If yes, please describe nature of the certification and time planned.)	
Do you have an updated website or social networking site?	
Do you use online communication for business purposes? If so, please explain how.	
Do you provide training for your professional/technical staff? If yes, please list kinds and frequency of the training.	
Do you have access to international research and best practices in your area/sector of operation? If so how?	

Box 2.1. Beneficiaries and Potentially Identified Non-Beneficiaries Survey (example template)

Basic Information

- (a) Name of the beneficiary/non-beneficiary



- (b) Nationality/residency status
- (c) Date established
- (d) Sector
- (e) Stage of development
- (f) Characteristics of the firms

Topic I. Efficiency of the submission process

- (a) Is the submission of a proposal for funding an easy procedure?
- (b) Is the amount of information requested reasonable?
- (c) How many days does it take to fill the documentation?

Topic II. Transparency of the selection process

- (a) Do you consider that the selection process is transparent, rigorous, and fair?
- (b) If your proposal was rejected, what were the reasons for funding being refused?
 - (i) Investment too risky
 - (ii) Investor didn't deal with the sector
 - (iii) Company not investment ready
 - (iv) Investor didn't deal with the scale of the investment
 - (v) Anticipated rate of return too low
 - (vi) Investor lack capacity to evaluate deal
- (c) Is the time between proposal submission and selection acceptable? Why?

Topic III. Effectiveness of the support

- (a) Financial support
 - (i) How much money did you receive from the fund? (please describe per round)
 - (ii) Is the financial support enough for the activities you want to finance? Why?
- (b) Nonfinancial support
 - (i) Do you receive nonfinancial support (for example, advisory services)?
 - (ii) Which type of support?
 - (iii) Is this type of nonfinancial support useful?
 - What have you learned?
 - What capabilities have you developed as a consequence of the investment that you would not otherwise know?

Topic IV. Efficiency of disbursement (only for beneficiaries)

- (a) Is the process to request the funds easy? (Yes/No)
- (b) Is the amount of information requested reasonable?
- (c) How many days does it take you to fill the forms?
- (d) Is the time between the submission of the request and the disbursement of the money reasonable?
- (e) Did you stop any activity because the funds didn't arrive on time?

Topic V. Efficiency of project reporting (only beneficiaries)

- (a) Do you consider project reporting reasonable? (Yes/No, explain)
 - (i) Amount of information
 - (ii) Quality of information
 - (iii) Frequency

Topic VI. Signs of additionality

- (a) What is the likelihood of raising capital in the absence of support?
 - (i) Very good
 - (ii) Good



- (iii) Poor
- (iv) Don't know
- (b) Beneficiaries: What would be the consequences if you had not received the financial assistance? You can select more than one option.
 - (i) I would have gone ahead with my business in the same way as if I had the financial assistance.
 - (ii) I would have gone ahead with my business in a reduced scope, for example, hiring few workers.
 - (iii) I would have gone ahead with my business in a reduced scope, for example, investing less in machinery and technology.
 - (iv) I would have gone ahead with my business in a reduced scope, for example, conducting less research and development (R&D) and innovation.
 - (v) I would have gone ahead with my business in the same way as if I had the financial assistance.
 - (vi) I would have gone ahead with my business in a reduced scope, for example, hiring few workers.
 - (vii) I would have gone ahead with my business in a reduced scope, for example, investing less in machinery and technology.
 - (viii) I would have gone ahead with my business in a reduced scope, for example, conducting less R&D and innovation.
 - (ix) I would have gone ahead with my business in a reduced scope, for example, not entering into new markets.
 - (x) I would have gone ahead with my business but it would have taken more time to have access to the market.
 - (xi) I would not have gone ahead with my business.
- (c) Applicant non-beneficiaries: What were the consequences of not receiving the financial assistance? Select the correct option:
 - (i) I went ahead with my business in the same way as if I had the financial assistance.
 - (ii) I went ahead with my business in a reduced scope, for example, hiring few workers.
 - (iii) I went ahead with my business in a reduced scope, for example, investing less in machinery and technology.
 - (iv) I went ahead with my business in a reduced scope, for example, conducting less R&D and innovation.
 - (v) I went ahead with my business in a reduced scope, for example, not entering into new markets.
 - (vi) I went ahead with my business but it took me more time to have access to the market.
 - (vii) I didn't go ahead with my business.

Topic VII. Signaling effects: Access to other external sources of finance

Do you consider the program has eased access to equity capital or debt finance from other private investors in successive rounds?

- (c) **The 3rd level of evaluation will be on the performance of the seed, early stage and VC funds' management (Box 2.2 and 2.3).** There will be two overall evaluations (reports) of the program, one at the end of three years and one at the end of the project (six years). These two reports will be led and funded by the Project. The reports will evaluate the efficiency and effectiveness of the program's management and design. The use of survey instruments is expected to be an appropriate choice for the purpose of this project. Specific questions and the format of the questionnaire will be further discussed and determined with an evaluation expert. As an example, the following boxes present typical questions normally used to conduct evaluations of innovation financing programs.

Box 2.2. Investor's Survey (example template)

Basic Information

- (a) Name
- (b) Nationality



(c) Country of residence

Topic I. Participation in the fund

(a) What were the main reasons that encourage you to invest in the fund?

- (i) Sharing risk
- (ii) Increasing investment size
- (iii) High expected returns

Topic II. Fund management

(a) What do you think about the overall management of the fund? (Assign a number from the scale of 1 to 5 with 1 the lowest performance and 5 the best performance.)

- (i) Transparency
- (ii) Efficiency
- (iii) Effectiveness
- (iv) Coordination among investors
- (v) Communication with investors

Topic III. Investment portfolio

(a) Do you agree with the way the investment portfolio has been managed? (Assign a number from the scale of 1 to 5 with 1 meaning "I don't agree" and 5 "I totally agree".)

- (i) Size
- (ii) Risk
- (iii) Return
- (iv) Diversification
- (v) Sectors
- (vi) Stage of development of the investee

(b) Would you change something about the investment strategy? (Please specify.)

Topic IV. IRR and exit strategy (this could be after a couple of years)

(a) Are you satisfied with the average IRR?

(b) What do you think about the exit strategy?

- (i) Timing
- (ii) Mode

Topic V. Signs of additionality

(a) What would be the consequences if the public sector wouldn't have created the new financing facility?

- (i) I would have gone ahead investing in the same way as if I have the public sector as a co-investor.
- (ii) I would have gone ahead investing but in a reduced scope.
- (iii) I would have gone ahead investing but taking less risk.
- (iv) I would have gone ahead investing but looking for higher internal return rates.
- (v) I would have not gone ahead investing.

Box 2.3. Program Manager's Survey (example template)

Basic Information

- (a) Name

Topic I. Identifying investment opportunities

- (a) Does the fund proactively search/identify investment opportunities?



(b) Is there a good pipeline? Why?

Topic II. Selection process of beneficiaries

(a) What are the criteria that the fund considers to make an investment?

(i) Risks

(ii) Expected returns

(iii) Management team

(iv) Other (please specify)

(b) How long does it take to conduct the due diligence process for an investment?

(c) How long does it take between a beneficiary requests the funding and he or she gets it?

Topic III. Financial support

(a) How many deals does the fund make per year at each stage (for example, start-up, early stage, VC)?

(b) What is the average size of each deal at each stage?

(c) Is the fund's performance in terms of deals and average size of the deals in line with (a) what was originally expected and (b) similar private funds? (Yes/No, why?)

Topic IV. Duration of the investment (this is after a couple of years)

(a) How long (on average) has the fund invested in each company at each stage?

(b) Is this a long enough period to obtain the expected returns?

(c) What is the IRR (on average) at each stage?

(d) What kind of exit strategy does the fund usually prefer? Why?

ANNEX 3: IMPLEMENTATION SUPPORT PLAN

COUNTRY: Hashemite Kingdom of Jordan
Innovative Startups Fund Project

Strategy and Approach for Implementation Support

1. The World Bank will carry out two main implementation support missions per year. A mid-term review (MTR) mission will be fielded 3 years after the project has become effective. Should structural implementation challenges emerge before 3 years, the resolution of which would require in-depth analysis and restructuring then the MTR will take place accordingly.
2. Project procurement and financial management missions will be undertaken as part of periodic fiduciary support conducted concurrently across operations in Jordan of all World Bank projects. An exception to the principle of autonomous supervision by the fiduciary specialists would be the MTR, Implementation support missions, and Implementation Completion Report (ICR), where it is likely that the entire World Bank project team will participate.

Safeguards Supervision

3. It is expected that the ISSF will retain access to ES consultancy services to advise the ISSF on a “as needed” basis. ES consultancy services implies that the ISSF may retain services of several different ESs as they are available when their services are needed which is likely to fluctuate according to percentage of ISSFs subproject applications which require subproject Environmental and Social Management Plans.
4. During supervision, a random sample of subproject screening forms of total subprojects cleared for funding and with category B/II classification will be reviewed for quality assurance. The following capacity building activities may be rolled out to the ISSF staff, and interested/potential ISSF partners, covering the following topics: (a) overview of sub-project screening process and subproject categorization, including “negative list”; (b) overview of the ISSF ESMF structure, including positive list of potential subprojects; and (c) training on subproject ESMF preparation.

Implementation Support Plan and Resource Requirements

Time	Focus	Skills Needed	Resource Estimate	Partner Role
First twelve months	<p>Review of RFP for ISSF manager including evaluation criteria and selection report.</p> <p>Review of ISSF investment strategy and operations plan including staffing</p>	<p>Project Task Management</p> <p>IFC specialists in VC fund management</p> <p>Consultants and Bank staff specialists in ecosystem support</p> <p>Procurement specialist</p> <p>FM specialist</p>	US\$180,000	



Time	Focus	Skills Needed	Resource Estimate	Partner Role
		Safeguards Specialist		
12-48 months	Implementation of financing and deal flow activities	Project Task Management FM PS Safeguards Specialist	US\$150,000	
Other	Potential restructuring	Project Task Management FM PS Legal	US\$150,000	

Skills Mix Required			
Skills Needed	Number of Staff Weeks	Number of Trips	Comments
Task Team Leader (TTL)	40 weeks	12	
F&M team members	24 weeks	6	
T&C team members	10 weeks	3	
Operations support	12 weeks	0	
FM	12 weeks	0	Local staff
PS	12 weeks	2	Local staff supported by regional staff
Legal	3 weeks	0	

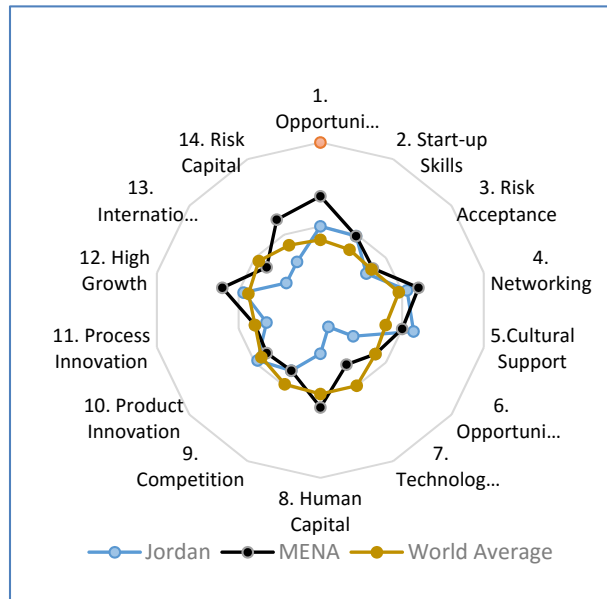


ANNEX 4: ENTREPRENEURSHIP AND FINANCING ECOSYSTEM FOR STARTUPS AND SMES IN JORDAN

I. Summary overview of the entrepreneurship and financing ecosystem for startups and SMEs in Jordan

1. The Global Entrepreneurship Index (GEI), the most exhaustive attempt to annually benchmark national ecosystems around the world ranks Jordan 64th out of 132 countries and the 10th in the MENA region (See Figure 4). The GEI reveals that Jordan has above world average rates in Opportunity Perception, Start-up Skills, networking, Cultural Support, Product Innovation and High Growth indicators. However, this momentum is not matched by the local supply of Risk Capital that usually accompanies innovation, and start-up creation. Compared to the World and the MENA regional averages Jordan falls significantly low in terms of Risk Acceptance, and Risk Capital. As such, many enterprise-support entities report that without the availability in funding it has been getting increasingly difficult to churn out the high quality and quantity of start-ups the economy needs – most Jordanian start-ups are moving to Dubai where they can find investors.

Figure 4.1. Pillar Level Comparison of Jordan, MENA, World Average (GEI - 2016)



Source: Global Enterprise Development Index Data Base, 2016

2. **The GEI also ranks Jordan low in Technology absorption, internationalization, and human capital – the latter being most likely due to the high number of skilled Jordanians working abroad.** Low technology absorption and internationalization is a reflection of the traditional industrial nature of Jordanian SMEs (trading companies, small manufacturing, retail, and services) most are family businesses that do not seek expansion and want to maintain the status quo. Innovation and entrepreneurship support, including the development of appropriate types of risk financing and a conducive legal and regulatory environment would contribute to increasing Jordan’s competitiveness, and achieving sustainable growth. Table 1.2 below summarizes key recommendations to address challenges faced by local investment funds in Jordan.



Table 4.1. Recommendations to Improve the Local Laws for PE/VC Funds in Jordan

Recommendation	Issues to be Addressed/Status
Introduction of a new investment company structure.	<p>Structure: In Jordan, the Typical Fund Structure is not available due to certain limitations in the Companies Law. While the limited partnership corporate form is in theory available through a limited partnership or an LPS, there are certain requirements in the Companies Law that make it impractical, if not impossible, for the implementation of the Typical Fund Structure in Jordan. Some of these limitations include (a) the requirement for a GP in a limited partnership to be a natural person as opposed to a corporate entity, (b) requirement for two GPs in an LPS (c) requirement for a GP of an LPS to contribute 30 percent of the total fund value. Thus funds that want to be set up using an exclusively Jordanian corporate structure (“Local Funds”) take the form of a private shareholding company (a “PSC”) which is a closed limited liability company that allows for the establishment of classes of shares.</p> <p>Status: The Companies Controller responsible for the Company Law is keen on either amending the law or creating a special legislation to govern the PE and VC industry. The Controller has expressed interest in seeking World Bank technical assistance in this area.</p> <p>Taxation: Having a pass-through tax entity is one of the core elements of a Typical Fund Structure. The PSC structures that local funds end up adopting are not considered as pass-through tax entities. <u>Article 2</u> of the Income Tax Law states that all entities registered in Jordan are taxable. This means that the Local Fund would have to present its tax returns and pay taxes on its operating profits. This creates a challenge as investment profits achieved by a Local Fund in the context of its normal investment activity would be deemed to be operating profits subject to income tax.</p>
Improvement of the regulations on alternative investment funds (including improvements to the rules which regulate General Partnerships and Fund Managers);	Regulations regarding all kinds of funds are under the mandate of the Companies Controller which can include the reforms within the special legislation for Pes/VCS or reform the Companies law. If, however, Companies register to trade in securities then they are under the regulation of the Securities Commission. The SC has already reformed the Securities law to allow for flexibility in types of funds and has developed with the help of the EBRD a road map for reform and implementation. The law is going to be presented to Parliament soon.
Modernizing bankruptcy laws to streamline the liquidation process for Portfolio Companies;	The Ministry of Industry and Trade has just finalized the new bankruptcy law with assistance from the IFC. The new law is expected to be presented for Cabinet approval very soon.
Incorporation of new international financial reporting Standards (IFRS) accounting rules aimed at SMEs and Portfolio Companies	This is under the domain of the Companies Controller who is keen to do whatever necessary to support the project and the business environment but capacity and training will be needed.
Become a signatory to the Apostille Convention increasing the ease of doing business in Jordan.	This would be under the domain of the Ministry of Economy and Trade.

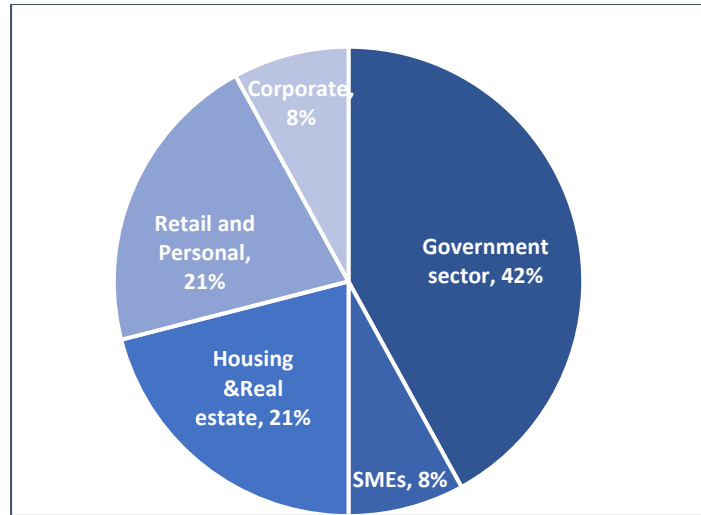


Access to Credit for SMEs

3. The financial market is dominated by the banking sector, which is less competitive and plays a limited role in financial intermediation. Adverse economic developments, increased government borrowing from banks, and increasing non-performing loans (NPLs) have contributed to the dampening of private sector credit growth to SMEs. Under these circumstances, banks tend to move away from SME lending to larger established clients. In addition to crowding out the private sector, increased Government borrowing from banks, will inevitably have implications on the liquidity of the banking system particularly for the three largest banks which currently enjoy adequate liquidity. The resulting heightened conservative lending approach the big banks are adopting leaves SMEs with no alternative to accessing credit as other small and medium-sized banks who usually lend to SMEs are already facing considerable stresses on their liquidity position.

4. Total credit facilities within Jordanian banks recorded JD 21 billion in 2015 amounting to 44.7 percent of total bank assets, reflecting the banks' conservative lending practices. Private sector credit-to-GDP is relatively low at 70 percent, which is largely allocated to large corporations. Although banks are the principal source of external finance for SMEs, only 11 percent of bank lending goes to SMEs, compared to 25-40 percent in emerging markets. The 2013 IFC Enterprise Finance Gap data base shows the large disparities in terms of access to credit by size of firms, since the largest share of bank financing in the country goes to the larger and older firms of the SME spectrum.

Figure 4.2. Distribution of credit Facilities



Source: Financial Stability report 2014, Central Bank of Jordan

5. Credit guarantee schemes for SMEs are not fully developed but are improving. Loan guarantee programs are currently offered to banks through the Jordan Loan Guarantee Corporation (JLGC), and the U.S. Overseas Private Investment Corporation (OPIC) mostly to established businesses with at least 3 years of operations. The OPIC Guarantee is a US\$250 million partial credit guarantee fund administered by the Cooperative Housing Foundation (CHF) under the name of the JLGC. The JLGC contribution to SME lending



is currently low at 5.18 percent but has been steadily increasing over the past 3 years. The JLGCC recently launched a specific credit guarantee tool for startups (companies one-year old or less) however it is too early to tell how this tool is performing.

Box 4.2. List of Current Angel and Venture Capital Funds in Jordan (summary, not exhaustive).

Badia Impact Fund: The Middle East arm of Silicon Badia. Capital of US\$33 million with international LP investors (Cisco, EIB, and Govt. of Spain), and King Abdullah Fund for Development (KAFFD). It seeks to invest in seed, early and growth stage companies, in the domain of Internet, mobile and digital media sectors. Badia is also launching with Accelerator Technology Holdings (ATH) a new US\$15 million fund to invest in and support training and establishment of new VC funds investing in early growth companies with ticket sizes between US\$500,000 - US\$1.5 million.

Wamda MENA Ventures (Regional), Dec 2014: Regional fund, with a first close north of US\$70 million with the IFC as anchor investor, US\$1 million - US\$5 million ticket size, weighted equally Jordan, Lebanon and Egypt and opportunistically in Dubai.

OASIS 500: Accelerator (supported by the Government, Accelerator tech, KAFFD and other investors) started in 2009/2010 with a mission to bridge the entrepreneurship know-how and jumpstart the target startups with seed money. The acceleration program was established in 2010 with an emphasis on training, mentorship and coaching of the startups teams. In only 3 years, Oasis 500 was able to invest in 60 teams at a rate of US\$10,000-US\$30,000 as a seed investment, and in-kind equivalent of 100-days boot-camp training. At the end of the program, the companies pitch to individual angels and VC funds and some of them were able to obtain follow-up funding (totaling US\$8 million across the portfolio). Oasis 500 has been restructured recently as a fund (General/Limited Partnership structure), and expanding the accelerator program beyond Jordan into UAE and KSA. Its mission has moved beyond bridging the knowledge gap, toward mainstream acceleration in competition with international firms in the US and beyond its borders. Recently it has formed a US\$6 million fund with local investors and 2 tracks of investments: (a) Seed level track for investments in companies in the accelerator program with ticket size of US\$10,000-US\$50,000. Currently there are 45 companies in the program; and (b) Growth track for more mature companies looking for funding ranging from US\$50,000-US\$500,000, with additional incubation, mentorship and coaching support.

Box 4.1. Summary of Active Programs Supporting Entrepreneurs in Jordan

Queen Rania Center for Entrepreneurship (QRCE). This is a non-profit organization established in 2004 with a mission to support economic growth by providing an array of services in entrepreneurship development in technology commercialization (QRCE is part of El-Hassan Business Park).

iPark: ICT Business incubator established under the Higher Council for Science and Technology and is currently part of El-Hassan Business Park. Supported by QRCE, the Intellectual Property & Commercialization Office (IPCO), and the Bedaya Business Angel Network to provide the incubation phase of the entrepreneurship development.

Bedaya Business Angel Network. Launched in 2009 by the founding institutions of QRCE, iPark and Arab Science and Technology Foundation, it was able to attract 30 important figures from the Jordanian investment, business and economic development communities. Bedaya works closely with the entrepreneurs, allocates the needed resources, and provides them with coaching opportunities. The angels and mentors business support in Jordan is very active as attested by money raised by Oasis 500 graduates (US\$8 million to date), and availability of small ticket seed money (US\$10,000-US\$25,000) in the market today. It is estimated that Bedaya will deploy an additional estimated US\$5 million in seed/early stage capital into the Jordanian eco-system in the next 3-4 years, bringing the total to US\$13 million deployed capital.

Endeavor. Endeavor is affiliated with high network investors who sit on its board and make investments in companies that are at the cusp of their high growth strategy and have a revenue stream of at least US\$1 million. Endeavor offers the companies mentoring, networking and marketing support. They also support business plan competitions and activities in the community that can help smaller start-ups.

INJAZ. INJAZ's portfolio of programs addresses the wide range of needs of young Jordanians and complement the education and training provided by traditional educational institutions with programs develop the vital soft and hard skills necessary to be competitive job candidates and entrepreneurs in the private sector. Injaz works with university students across Jordan to help them create and manage social enterprises and develop their leadership and social entrepreneurial skills through training and mentorship from successful business and social leaders in Jordan.



Box 4.3: Main Stakeholders

Int@j. The Information and Communications Technology Association of Jordan – int@j, is an ICT & IT Enabled Services (ITES) industry-support association founded in 2000 with the aim of improving the dynamics of Jordan's ICT and ITES market and developing the Jordan's ICT and ITES related activities. Int@j's REACH aims at nurturing a vibrant, export-oriented, and internationally competitive ICT sector by developing a regulatory framework, providing an enabling infrastructural environment, and offering advancement programs, Human Resource development and capital and finance to SMEs.

Business Development Center (BDC). Established in 2004, the BDC is a non-profit organization committed to fostering economic development and public reform in Jordan and the Middle East. BDC is committed to: Promoting entrepreneurship and innovation; Creating employment opportunities and building individual capacities for youth, women and professionals; Managing, promoting and stimulating the creation of public-private partnerships; Enhancing the competitiveness, sustainability and export capabilities of SMEs; Fostering financial linkages between SMEs and financial resources; Designing and managing programs for development and donor agencies; Developing mutually beneficial relationships with international universities through exchange and international programs; and Encouraging social responsibility and community involvement.

Main Government and Donor Supported Entities

JEDCO. A non-profit corporation affiliated with the Jordanian government for the development of enterprise in Jordan. Among its initiatives and supported by the EU, JEDCO seeks to provide grants for SMEs in the service sector to boost their competitiveness and enhance their capacity. JEDCO to date (2014), has provided support worth 13.3m Euro for 268 beneficiaries, with an average grant of 50k Euro, and provided jobs for 1056 individuals across the country.

King Abdulla Fund for Development: Focuses on capacity building programs in Jordan through various services and initiatives:

- Gaming Lab, designed to meet the needs of developers in game design and development
- Oasis 500 funding accelerator program
- Youth competition and scholarships grants

European Investment Bank (EIB), Cisco, and the European Bank for Reconstruction and Development (EBRD). All these international finance institutions invested in the Badia Impact Fund for SMEs.

The Young Entrepreneurs Association: has launched a "Venture Capital Funding Networking Service" to facilitate the establishment of new SMEs or supporting existing SMEs. It aims at assisting entrepreneurs in building on their ideas through mentorship by an advisory board in preparation to network with local, regional, and international venture capitalists.

II. Rationale for Public Intervention to Support Startups and SMEs

6. There are three interrelated reasons that cause markets to provide less than optimal financing for early-stage companies: asymmetric information, institutional failures, and coordination failures. Under each case the government has a role to play be it policy reform or financial support.

7. **Asymmetric information is when a bank or an investor does not have the information needed to take informed decisions about a new venture, while the entrepreneur has more accurate information about the potential of his or her project and own capacity.** Such asymmetry in information leads to two types of market behavior - Adverse selection and moral hazard.

- (a) **Adverse selection.** Since banks and traditional PE investors do not have the information to properly assess the risk of a new company (no track record, no revenue), they will price their lending/funding cost and terms based on average default risks and high transaction costs for due diligence and support. Subsequently entrepreneurs who have more knowledge about their risk seek other solutions, or exit, which leaves higher-risk companies in the market as they would be willing to pay the higher costs. This in turn raises default risk until financing becomes too costly to appeal to most start-ups and SMEs. Thus, instead of the market providing financing at a cost commensurate to the real risk of a company it prices most SMEs



out of the market narrowing banks' market share while financing only very low risk companies. This is known as adverse selection.

- (b) **Moral hazard, on the other hand, occurs when due to information asymmetry the entrepreneur has better knowledge about his or her liabilities and strengths than the creditor or investor and decides to take on more risk or benefit himself or herself at the cost to the creditor or investor.** To hedge against this hazard, banks demand high collateral to ensure that they get back the value of their loan while equity investors demand significant shares in a company (under-value the firm) to maintain control and influence decision-making—which many entrepreneurs refuse. A strong financial infrastructure can help alleviate information asymmetry that leads to adverse selection and moral hazard. Examples of financial infrastructure tools include a functional credit registry that allows firms to build a credit history, bankruptcy laws, minority investor rights, an insolvency regime, contract enforcement and intellectual property rights. These elements help address investors' uncertainties. They help make it clear what investors own and what they can recuperate, which in turn allows them to make more accurate risk assessments.³² The World Bank and the IMF through other programs and initiatives (for example, Financial Sector Dialogue, P4R, IMF program) is addressing some of those issues.

8. **A weak financial infrastructure for business and investment climate are the result of institutional failure.** Institutional failures usually exacerbate information asymmetry. Jordan has made progress in some financial infrastructure tools. Examples include a credit information company that was launched in 2016 and has just begun operations, a national payments system “eFAWATEER” and a mobile payment platform “JoMoPay” which were established to ease some of the transaction costs and improve efficiency of payments and credit transfer for startups. A reformed secured transaction law is still pending Parliament review, and a new bankruptcy law is waiting to be submitted for Cabinet approval. The Companies Comptroller at the Ministry of Industry and Trade has expressed the need for World Bank technical assistance in drafting a new Decree to facilitate the structuring of local PE and VC funds. The government can use the proposed project as a platform to promote the passing of necessary legal reforms through a bottom-up approach. While a proper legal and regulatory environment is essential to draw in foreign investors, local and regional investors are willing to engage in an environment that they are familiar with and understand as seen by the increasing activity in seed and early stage investment in the region over the past years. With the growth in interest by governments who are increasingly becoming stakeholders in this space the incentive to make the appropriate reforms also increases. For example, the UAE government has made substantial investments and reforms to make the UAE a center for entrepreneurs and VC investment. Development of an efficient legal and regulatory environment is critical however, having a secured transaction law and a functional bankruptcy regime would still not completely address the adverse selection problem faced by startups because of their lack of any track record contributing to their high risk and high transaction cost needed to help them reach viability. A well-developed early stage and VC market is needed to support startups. A VC market depends on a broader ecosystem of financial and non-financial support entities. All these elements are interdependent and the efficiency and abundance of one affects the success of the other.

9. **Coordination failure.** This refers to situations when a VC industry fails to develop due to

³² On the other hand, better protection for investors allows entrepreneurs increased leverage in negotiations.



weaknesses in the ecosystem, such as lack of enough promising investment-ready startups, lack of business angels to back them in earlier stages, lack of able lawyers to negotiate deals and IP agreements, lack of experienced investment professionals, and lack of developed exit markets.³³ Yet many of these elements cannot emerge without a developed VC industry existing in the first place. The Jordanian equity industry is concentrated with players investing on larger PE deals with few VC players. Addressing the problem of industry coordination failure is usually done through a mechanism using temporary government injection of capital through a risk sharing facility with private investors until the industry is fully developed and self-sustaining. Examples where this has been done include Australia, Brazil, India, Israel, the United States, the United Kingdom, and Canada.

³³ Exits. Initial public offerings (IPOs) are typically not a viable exit strategy in most emerging economies with underdeveloped capital markets. Thus, PE/VC funds tend to rely on sales to strategic and financial sponsors and 'self-liquidating instruments' to facilitate exit.



ANNEX 5: GOVERNMENT PROGRAM RECOMMENDED BY ECONOMIC POLICY COUNCIL AND APPROVED BY THE CABINET IN SEPTEMBER 2016

Startup financing

- Setup a US\$100 million venture capital fund with the World Bank (WB) and the Ministry of Planning and International Cooperation (MoPIC) in coordination with the Central Bank of Jordan (CBJ), US\$50 million by WB and CBJ to secure additional US\$50 million in 2016. (Withdrawal of WB loan will be in beginning of 2017).
- CBJ to increase the Jordan Loan Guarantee Corporation (JLGC) JD50m start-up loan guarantee program established in 2016 to JD100m in 2017.

SME financing

- Endorse Movable Assets Law (2016) — activate the existing law through issuing by-law and withdraw the draft law from parliament for review.
- Allow banks to give out direct loans to SMEs under CBJ's refinancing program (immediately).
- Allocate 15 percent of the soft loans extended by international and regional financial institutions to SME's startups (CBJ/ 2016).

Export and growth financing

- Allocate JD100m to JLGC for export guarantee program (CBJ/ 2016).
- Banking sector to setup private equity fund of JD150m JD110m from commercial banks and JD40m from Islamic Banks (Banks, CBJ/ 2016).
- Raise allowable guarantee ceiling to JD1m (from JD550,000) for service and industrial loans (MoPIC, JLGC/ 2016).

Governorate financing

- Decrease the CBJ's refinancing program rate from 1.75 percent to 1 percent for projects located outside Amman (immediately)
- Expand the maturity period of the CBJ's refinancing program (immediately)

Capital market

- Privatize ASE — Public shareholding company (Jordan Securities Commission (JSC)/2017)
- Enable e-trading on ASE (JSC/2017)



- Amend JSC and companies' laws to grant securities commission more discretion in issuing instructions to set policy (JSC/2017)
- Enforce corporate governance stipulated in laws on public shareholding companies (JSC/2017)
- Enact Exchange Traded Fund (ETF) and Mutual Funds (JSC/2017)

Financial instruments

- Expand the "Issuing of Savings Bonds" campaign to include Jordanian expats as well as locals (Ministry of Finance (MoF), CBJ/2016)
- Expand the "Issuing of Islamic Sukuk" target market to include individuals (MoF, CBJ/2016)

Microfinance and insurance

- Furnish banks' lending and loan guarantees with microfinance institutions that successfully complete licensing process as per CBJ regulations (banks, CBJ/2017)
- Incentivize mergers of insurance and microfinance companies (CBJ/2017)
- Enable general partners/limited partners — Investment Limited Partnership (ILP) legal setup. Introduce Investment Limited Partnership (ILP) legal structure in companies
- Allow for enforceability of shareholders' agreements — except for PLCs. Introduce an article in companies' law to allow for annexation and enforceability of shareholders' agreement
- Remove Goodwill Tax. Amend article (3-A7) of Income Tax Law (2014) to remove Goodwill Tax
- Allow for tax deductions on investments in startups. Introduce an article to Income Tax Law (2014) that allows for tax deductions on investments in startups of three-year-old
- Allow for "virtual office" registration. Amend Companies Law to allow for "virtual office" registration
- Create a flat low rate for customs and goods and services tax while reconsidering exemptions
- Align resource allocation with international best practice on compliance vs auditing (5-10 percent), as well as creating specializations within tax department
- Limit tax evasion
- Adopt receipt-based system
- Automate and link services through building an e-database



- Enforce imprisonment for tax evasion
- Encourage payment of outstanding tax dues through adopting incentive settlement program.

Lower cost of compliance for SMEs:

- Allow semi-annual reporting
- Cash-based accounting (vs accrual), for applicable sectors
- Automate legal case assignment processes within judicial system (assign commercial cases to specialized judges)
- Train employees on proper use of judicial police license (law enforcement authority)
- Facilitate company insolvency
- Amend legal notification process (electronic)
- Create tax clearing house

Overarching economic legislative framework

- Ensure economic rights of private sector interaction with government are clear and met
- Exempt Social Security Investment Fund and Securities Commission from Civil Service by-law (hiring procedures)
- Re-engineer, digitize and outsource (when possible) business related processes. Project to commence with top 10 business related to government processes
- Reach out to Gulf Cooperation Council to secure accreditation and recognition of Jordanian professional service qualifications (e. g: auditing, accounting, engineering and architecture)
- Enable low-cost carriers (LCCs). Develop Marka Airport through private sector BOT participation to become Amman's primary airport for LCCs.

ANNEX 6: WBG CURRENT SUPPORT TO SME FINANCING IN JORDAN

Table 6.1. WBG Current Support to SME Financing in Jordan

A. Technical Assistance	
Enhancing Governance and Strengthening the Regulatory and Institutional Framework for MSMEs Development (US\$3 million)	<ul style="list-style-type: none"> • The Jordan Enhancing Governance and Strengthening the Regulatory and Institutional Framework for MSMEs Development project ensures effective implementation of the line of credit with all the advisory services and capacity building provided to CBJ, the same implementing entity, therefore they are complementary projects that are mutually reinforcing activities that will ensure better impact on the ground. The project addresses major deficiencies in the financial infrastructure, which will not only lead to enhancing access to MSMEs, but will also, attain a fair and more transparent system. • The project aims at enhancing the consumer protection mechanism; and developing the regulatory and institutional framework for micro finance institutions and NBFIs; and strengthening the credit guarantee schemes for MSMEs, to help Jordan Loan Guarantee Corporation (JLGC) offer products that cater to MSME lending to reduce the risks of banks' lending to this sector that is considered riskier.
The Joint World Bank-IFC MENA MSME Facility	<ul style="list-style-type: none"> • The MENA MSME TA Facility is a multi- donor trust fund which is supported by the Danish International Development Agency (DANIDA); Japan International Cooperation Agency (JICA); the UK Department for International Development (DFID/UKAID); the Swiss Secretariat for Economic Affairs (SECO); and Canada's Department of Foreign Affairs, Trade, and Development (DFATD) for a total budget of US\$41 million. • The joint World Bank-IFC MENA MSME Facility in Jordan provides technical assistance and advisory services under three pillars, namely: (a) developing the enabling environment for MSMEs through supporting policy, legal and regulatory reforms to facilitate their access to finance; (b) providing advisory services to financial institutions that serve MSMEs to attain a more inclusive system, focusing on youth, women and regional disparities; and (c) building the capacity of MSMEs through entrepreneur networks, mentoring, and business incubator-type services.
IFC Advisory	<ul style="list-style-type: none"> • Jordan Loan Guarantee Corporation • Arab Credit Reporting Initiative (Phase 2) • Private Credit Bureau Jordan • Levant Corporate Governance Project • MENA Captive Renewable Energy Project • Ejara Leasing • Secured transactions law and insolvency regime reform
B. Analytical Work	
Regional Ongoing Knowledge Services and New Research	<ul style="list-style-type: none"> • A corporate governance handbook for SMEs. A corporate governance handbook targeted at SMEs is being developed by IFC for wider regional use. The publication outlines the governance challenges faced by SMEs and puts forth best practices based on IFC's corporate governance methodology. • Better assessing microfinance risk IFC is working with Sanabel on a regional Risk Management Survey (The Voices), similar to the global Microfinance Banana Skin but concentrated on stakeholders working in and familiar with the Arab region. The report aims at taking stock of the most pressing risks facing the



	<p>sector and analyzing the trends based on the respondent perceptions.</p> <ul style="list-style-type: none">• Flagship report on Islamic Finance for SMEs in MENA. This new study analyses the demand and supply of Islamic banking to SMEs in the region, and identifies new market opportunities for banks in Morocco, Tunisia, Egypt, Jordan and Iraq.
C. Lending	
Micro, Small, and Medium Enterprise Development for Inclusive Growth Project and Additional Financing (US\$120 million)	<ul style="list-style-type: none">• The project is a line of credit to banks through CBJ to finance MSME lending, aiming at addressing the liquidity problem, which is especially affecting MSMEs access to finance. The project came at an opportune time in Jordan with the recent economic and political developments in the context of the influx of Syrian refugees looking for job opportunities.
IFC FIG	<ul style="list-style-type: none">• Bank al Etihad, Cairo Amman, and Capital Bank• Loans to three Microfinance institutions (Tamweelcom, Finca, MECC/VITAS) with total outstanding amount of US\$5 million.

ANNEX 7: TECHNICAL TERMINOLOGY

Table 7.1. Technical Terminology

Accelerator	A business accelerator is similar to an incubator (see below) but differs in that it usually has a greater focus on companies entering or growing in a national or global market. Business accelerators are more likely to be financed by venture capitalist looking for an opportunity to finance growth potential through defined action plans. Business accelerators will generally offer all of the services offered by a business incubator. The key difference is the level of hands-on involvement by accelerator management, which should increase the chances of success.
Angel investor	Refers to any individual who invests his or her money in an entrepreneurial company (unlike institutional venture capitalists, who invest other people's money). The Angel may provide capital to one or more startup companies and takes a personal stake in the success of the venture. Such investments are characterized by high levels of risk and a potentially large return on investment. Sometimes a group of individuals get together and agree to invest their money in a certain company and are referred to as an Angel Network.
Diaspora	A group of people that have migrated away from their ancestral homeland and reside in another country. Such groups tend to form professional, cultural, or social networks in the country they live in – Diaspora networks.
Entrepreneurship Ecosystem	The definition of ecosystem is the complex of a community of organisms and its environment functioning as an ecological unit. In the case of entrepreneurship, ecosystem refers to the individuals, organizations or institutions, and the operating and living environment, that are conducive to, or inhibitive of, the choice of a person to become an entrepreneur, or the probabilities of his or her success following launch.
Entrepreneurship	Where an individual assumes the risk and responsibility in designing and implementing a business strategy or starting a business, thereby identified as an entrepreneur.
Equity investment	Money that is invested in a firm by its owner(s) or holder(s) of common stock but is not returned in the normal course of the business. Investors recover it only when they sell their shareholdings to other investors, or when the assets of the firm are liquidated and proceeds distributed among them after satisfying the firm's obligations. It is also called equity contribution.
Incubators	The term business incubator refers to a facility with a program to help small companies have a better chance of survival through the start-up phase. An incubator may offer services such as office space usually at a reduced rate; shared office services: receptionist, conference rooms, computers, office equipment and so on; entrepreneurial advice and mentoring; business planning; contacts and networking.
Innovation	The most recent edition of the Oslo Manual (3 rd edition, 2005) defines innovation as: the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organization method in business practices, workplace organization or external relations.
Investment Capital	Money invested in a business venture with an expectation of income, and recovered through earnings generated by the business over several years. It is generally understood to be used for capital expenditure rather than for day-to-day operations (working capital) or other expenses.



Investment Readiness	Formal program of training and coaching provided to entrepreneurs to help make their ventures investible, and to help them approach potential investors. Can be provided as part of an accelerator program or separately.
IRR (Internal Rate of Return)	Measurement of the average annualized rate of return of an investment consisting of negative flows (cash outflows) and positive flows (cash inflows). It is used to measure and monitor performance of private equity transactions.
Quasi Equity	A category of unsecured debt taken on by a company embedded with equity instruments (usually warrants, stock options) attached, which increase the value of the debt and allow for greater flexibility when dealing with repayment. Examples of quasi-equity include subordinated debt and Mezzanine debt. Subordinated debt is a loan or security that ranks below (usually second) to higher priority loans (like Senior debt) and securities with regard to claims on a company's assets or earnings. Subordinated debt is also known as a junior security. In the case of borrower default, creditors who own subordinated debt won't be paid out until after senior debtholders are paid in full. Mezzanine debt is frequently associated with acquisitions and buyouts, where it may be used as an interim debt that would allow a company to purchase an asset or implement an activity while searching for a better lower cost longer term financing. For example, if a company needs money to finish fulfilling an order, it takes on such a loan to be able to complete the company's obligations while looking for a business line of credit with lower interest rate and better payment options. Mezzanine debt prioritizes new lenders/owners ahead of existing owners in case of bankruptcy ³⁴ and is considered a very expensive debt.
Senior Debt	Senior debt is borrowed money that a company must repay first if it goes out of business. If a company goes bankrupt, senior debtholders, who are often bondholders or banks that have issued revolving credit lines, are most likely to be repaid, followed by junior/subordinate debt holders, preferred stock holders and common stock holders. Senior debt is secured by collateral, and that collateral can be sold to repay the senior debt holders. As such, senior debt is considered lower risk and carries a relatively low interest rate. Even though senior debtholders are the first in line to be repaid, they will not necessarily receive the full amount they are owed in a worst-case scenario. http://www.investopedia.com/terms/s/seniordebt.asp#ixzz4F3rAtvYW
Venture Capital (VC)	Startup or growth equity capital or loan capital provided by private investors (the venture capitalists) or specialized financial institutions (development finance houses or venture capital firms). It is also called risk capital.

³⁴ <http://budgeting.thenest.com/difference-between-mezzanine-debt-subordinated-debt-30054.html>, accessed on October 20, 2016.



ANNEX 8: PROJECT FINANCIAL PROJECTIONS

Table 8.1. Project Financial Projections based on Investment Strategy Proposed in the PAD

Assumptions						
Loan amount	50000000					
Project period (years)	6					
Loan fee (paid Front-end) 0.25% of loan	125000					
Interest rate (Libor 6 months+0.44pp)	1.87%					
Loan repayment	20 yrs w/ 6 yrs grace					
Project Costs Totals						
	Total (6 years)	Per year				
PMU	\$ 4,000,000	\$ 666,666.67				
Deal Flow Component	\$ 6,500,000	\$ 1,083,333.33				
Pre and Post- Investment support	\$ 3,500,000	\$ 583,333.33				
Loan fee	\$ 125,000					
Project costs yearly						
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
PMU	666,667	666,667	666,667	666,667	666,667	666,667
Deal Flow Component	1,083,333	1,083,333	1,083,333	1,083,333	1,083,333	1,083,333
Pre and Post- Investment support	583,333	583,333	583,333	583,333	583,333	583,333
Loan fee	125,000	0	0	0	0	0
Interest	0	0	0	0	0	0
Total	2,458,333	2,333,333	2,333,333	2,333,333	2,333,333	2,333,333
Equity Investment						
Funds available for Investment support	\$ 50,000,000 (43 from WB and 7 from GoJ)					
	% Leverage					
Amount for Seed Investment	14% \$ 7,000,000 1					
Amount for Early Investment	28% \$ 14,000,000 1.7					
Amount for VC Investment	48% \$ 24,000,000 1.4					
Direct Investments	10% \$ 5,000,000 1.5					
Total	100% \$ 45,000,000					
	Seed	Early	VC	Direct Invest.		
Number of Investments	80	70	40	10		
Success rate	20%	25%	30%	25%		
Success return (# times)	2.5	2.5	3	2.5		
Survivor Rate	20%	25%	30%	25%		
Survivor return (# times)	1	1	1	1		
Failure Rate	60%	50%	40%	50%		
Failure return (# times)	0	0	0	0		
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Investment Disbursement Rate	0.1	0.15	0.2	0.25	0.2	0.1
Project disbursement	6,750,000	9,250,000	11,750,000	14,250,000	11,750,000	6,750,000
GOL INVESTMENTS						
Seed	700,000	1,050,000	1,400,000	1,750,000	1,400,000	700,000
Early	1,400,000	2,100,000	2,800,000	3,500,000	2,800,000	1,400,000
Venture	2,400,000	3,600,000	4,800,000	6,000,000	4,800,000	2,400,000
Direct Investments	500,000	750,000	1,000,000	1,250,000	1,000,000	500,000
Total GOJ investments	5,000,000	7,500,000	10,000,000	12,500,000	10,000,000	5,000,000
PRIVATE COINVESTMENT MOBILIZED						
Seed	700,000	1,050,000	1,400,000	1,750,000	1,400,000	700,000
Early	2,380,000	3,570,000	4,760,000	5,950,000	4,760,000	2,380,000
Venture	3,360,000	5,040,000	6,720,000	8,400,000	6,720,000	3,360,000
Direct Investments	750,000	1,125,000	1,500,000	1,875,000	1,500,000	750,000
Total private co-investment	7,190,000	10,785,000	14,380,000	17,975,000	14,380,000	7,190,000
TOTAL INVESTMENT	12,190,000	18,285,000	24,380,000	30,475,000	24,380,000	12,190,000
Seed	1,400,000	2,100,000	2,800,000	3,500,000	2,800,000	1,400,000
Early	3,780,000	5,670,000	7,560,000	9,450,000	7,560,000	3,780,000
Venture	5,760,000	8,640,000	11,520,000	14,400,000	11,520,000	5,760,000
Direct Investments	1,250,000	1,875,000	2,500,000	3,125,000	2,500,000	1,250,000
Number of firms receiving equity fin.						
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Seed	8	12	16	20	16	8
Early	7	11	14	18	14	7
Venture	4	6	8	10	8	4
Direct Investments	1	2	2	3	2	1
Total Firms	20	30	40	50	40	20
EXITS						
	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12
Value of GoJ share of Investments						
Seed	490,000	735,000	980,000	1,225,000	980,000	490,000
Early	1,225,000	1,837,500	2,450,000	3,062,500	2,450,000	1,225,000
Venture	2,880,000	4,320,000	5,760,000	7,200,000	5,760,000	2,880,000
Direct Investments	437,500	656,250	875,000	1,093,750	875,000	437,500
Total	5,032,500	6,892,500	9,190,000	11,487,500	9,190,000	4,595,000
Value Of GOJ Inv. Upon Exit						
Seed	4,900,000					
Early	12,250,000					
Venture	28,800,000					
Direct Investments	4,375,000					
Total	50,325,000					