



Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

Concept Stage | Date Prepared/Updated: 24-Mar-2017 | Report No: PIDISDSC20204



BASIC INFORMATION

A. Basic Project Data

Country Jordan	Project ID P161905	Parent Project ID (if any)	Project Name Innovative Startups Fund Project (P161905)
Region MIDDLE EAST AND NORTH AFRICA	Estimated Appraisal Date Apr 17, 2017	Estimated Board Date Jul 03, 2017	Practice Area (Lead) Finance & Markets
Lending Instrument Investment Project Financing	Borrower(s) Government of Jordan	Implementing Agency Jordan Loan Guarantee Corporation	

Proposed Development Objective(s)

25. The project’s development objective is to increase private investors’ supply of early stage finance for innovative startups and small and medium enterprises (SMEs).

Financing (in USD Million)

Financing Source	Amount
Borrower	13.88
International Bank for Reconstruction and Development	50.00
Total Project Cost	63.88

Environmental Assessment Category F-Financial Intermediary Assessment	Concept Review Decision Track II-The review did authorize the preparation to continue
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B. Introduction and Context

Country Context

1. Economic growth in Jordan has been on the decline as a result of the aftermath of the global economic slowdown and the on-going regional crisis. Rising unemployment is a key challenge and job creation is emphasized by 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. Evidence from developing countries on the role of firm age and productivity on job creation shows that 5 -10 percent of firms, variously known as high-growth SMEs or ‘gazelles’, deliver 50-80 percent of new private sector jobs (Holzl, WIFO, 2008). In October 2016, the Economic Policy Council (EPC) of Jordan¹ released a first set of 38 recommendations to aid the government in surpassing economic obstacles and boost the national economy. The first recommendation proposed by the EPC is to set up a fund to facilitate financing to innovative startups and SMEs. In this context, the Government of Jordan requested a loan for US\$50 million from the World Bank to set up a fund that would facilitate financing to innovative startups as well as and provide them with the necessary support to help them foster creative ideas and grow viable businesses.

Sectoral and Institutional Context

2. Jordan’s Innovative start-ups face challenges on the demand and the supply side, with funding being the main one. 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. 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. Challenges in the Business environment are constraining investment and the ability of the private sector to grow. Jordan has one of the lowest access to finance indicators in the world, especially for small enterprises. The paucity in VC funding is beginning to have an impact on the survival of startups and limiting the deal flow of potential investments for the growing Private Equity (PE) industry looking to support the later development and transformation needs of companies. According to the GEI, compared to the World and the MENA regional averages Jordan falls significantly low in terms of Risk Acceptance, and Risk Capital. Having a VC industry can help increase the creation of startups and job creation. An important element for the VC industry is the availability of Angel/Seed financing.

Relationship to CPF

3. The proposed project fits within the World Bank Group's twin goals of ending extreme poverty and boosting shared prosperity as reflected in the new Country Partnership Framework 2016–2021. In line with the Government’s vision for Jordan 2025, Pillar 1 of the CPS: “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 CPS strategic outcome 1.3: “Increased access to finance and skills development”, which seeks to strengthen the capacity of banking and microfinance institutions to provide increased access to finance for MSMEs and to offer new products in underserved markets – focusing specifically on female and young entrepreneurs.

¹ 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.



C. Proposed Development Objective(s)

4. The project's development objective is to encourage the private equity investment market to increase the supply of early stage finance for innovative small and medium enterprises (SMEs)

Key Results (From PCN)

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

- (a) Amount of private capital mobilized through the project
- (b) Small and medium enterprises that receive equity financing through the project (by gender and age of main owner(s))
- (c) Small and medium enterprises receiving funds through the project that introduced a new product, process, or service, or have upgraded the quality of an existing product, process, or service (by gender and age of main owner(s)).

D. Concept Description

6. **A funding facility called the "Innovative Startup Fund" (ISF) will be created (structured as a Special Purpose Vehicle (SPV)) as an independent private company with contribution from the Project and the CBJ to demonstrate the benefits of an increase in the supply of financing to the capital risk industry.** The ISF's objectives will be to work through shareholder or partnership agreements with partners in the entrepreneurship and investment ecosystem to foster quality innovative startups and provide them support and financing throughout their gestation, early development, acceleration and early growth stage. The ISF will be owned 51 percent by the Jordan Loan Guarantee Corporation (JLGC) and 49 percent by the CBJ. The CBJ will have no role in the ISF other than providing capital and will take the position of a silent partner (no veto, non-voting shares, no Board seat). The JLGC will hold the shares in the ISF on behalf of the Government until assets are liquidated and the proceeds returned to the government. The JLGC will not have any role in the implementation of the activities and will select through an international competitive process a private manager to implement all ISF's activities following World Bank specific criteria and guidelines established in the Project Operations Manual (POM). The JLGC will supervise the Project on behalf of the government and will make the ISF adopt the Project OM. The JLGC will ensure that in addition to implementing Project activities, the selected ISF 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 included in the OM including those related to financial management, procurement, and safeguards.
7. The ISF will have an Advisory Board with the JLGC as the Chairman. The JLGC will select based on criteria established by the World Bank 4 private sector experts in industry and equity finance to serve on the Advisory Board.

SAFEGUARDS



A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

Funding will be available to potential start-up companies throughout the Hashemite Kingdom of Jordan. However, it is expected that most small and medium enterprises (SMEs) will be based in Amman or other major cities. Although the application project will not be sector-specific, due to current national composition of the private sector in Jordan, most SMEs will be in the services and information technology sectors.

B. Borrower’s Institutional Capacity for Safeguard Policies

MOPIC will be the Implementing Agency signing the loan agreement for this project. MOPIC will sign a subsidiary grant agreement with Jordan Loan Guarantee Corporation (JLGC). JLGC and Central Bank of Jordan will create a funding facility called the Innovative Startup Fund (ISSF) to work through shareholder agreements with small and medium enterprises (SMEs). The ISSF will contract a private manager to implement all of ISSF's activities, including safeguards compliance monitoring and reporting. It is expected that the ISSF will hire consultants to serve as Investment Officers, who will be responsible for SME application screening, including safeguards screening. ISSF will hire a consultant to ensure SME compliance with Ministry of Environment and WBG environmental and social guidelines for those few SMEs who are identified to have Category B (in Jordan Category II) environmental impact. 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 SME screening and funding process incorporates systems commensurate with World Bank safeguard policies. MOPIC and the Central Bank of Jordan have both implemented multiple World Bank projects and have demonstrated ability to comply with safeguard-related legal covenants.

C. Environmental and Social Safeguards Specialists on the Team

Tracy Hart, Mariana T. Felicio

D. Policies that might apply

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	The World Bank Group has screened the proposed project components and has determined that this project is categorized as a FI – Financial Intermediary according to OP 4.01. Accordingly, the project will prepare and make use of an Environmental and Social Management Framework (ESMF). Financial institutions selected to implement investments and ecosystem support are referred to in this context as SMEs. SMEs include venture capital (VC) investment funds, angel/seed funds, and ecosystem providers. 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 environmental or social risks associated with them (i.e. Category C, or Category III in Jordan). Furthermore, Due to the early (proof-of-concept and pre-



		production) stages as well as the size of SMEs, there is expected to be no physical or economic production during the entirety of the World Bank project implementation period. However, it is recognized that there may be some investments (e.g. renewable energy, pharmaceuticals, agro-business) in which the environmental and social risks may be identified. The SME screening process will exclude any Category A projects (Category I projects in Jordan), and will identify the systems needed for mitigation and management of Category B projects (Category II in Jordan).
Natural Habitats OP/BP 4.04	No	Sub-project screening will exclude any sub-project which involves natural habitats.
Forests OP/BP 4.36	No	Sub-project screening will exclude any sub-project which involves forests.
Pest Management OP 4.09	No	Potential activities in agribusiness are limited to innovative packaging, processing, marketing and distribution of food products. Any sub-activities which produce or use pesticide will be excluded from the project and listed in the ineligible activities. Also, the screening checklist includes questions on the use/production of pesticides to make sure these activities are screened out.
Physical Cultural Resources OP/BP 4.11	No	All potential investments or grants will be screened in order to exclude from ISF financing those which would locate or invest in areas with physical cultural property attributes.
Indigenous Peoples OP/BP 4.10	No	There are no indigenous peoples in the service area.
Involuntary Resettlement OP/BP 4.12	No	The project is expected to mainly finance small enterprises in the services or technology sphere and expected to be located in leased office space. 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.
Safety of Dams OP/BP 4.37	No	This policy is not applicable.
Projects on International Waterways OP/BP 7.50	No	This policy is not applicable.
Projects in Disputed Areas OP/BP 7.60	No	This policy is not applicable.



E. Safeguard Preparation Plan

Tentative target date for preparing the Appraisal Stage PID/ISDS

Apr 17, 2017

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

ESMF clearance and disclosure is expected by April 17, 2017.

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APPROVAL

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