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Report No: PAD4939

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT
ON A
PROPOSED LOAN

IN THE AMOUNT OF US$85 MILLION

TO THE

HASHEMITE KINGDOM OF JORDAN

FOR A

JORDAN: SUPPORT FOR INDUSTRY DEVELOPMENT FUND

April 21, 2022

Finance, Competitiveness and Innovation Global Practice
Middle East and North Africa Region

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The World Bank

CURRENCY EQUIVALENTS

(Exchange Rate Effective March 31, 2022)

Currency Unit =	Jordanian Dinar (JD)
US$1 =	JD0.71

FISCAL YEAR
January 1 - December 31

Regional Vice President:	Ferid Belhaj
Country Director:	Saroj Kumar Jha
Regional Director:	Nadir Mohammed
Practice Manager:	Irina Astrakhan
Task Team Leaders:	Ali H. Abukumail, John Gabriel Goddard

ABBREVIATIONS AND ACRONYMS

CBA	Cost-Benefit Analysis
CO2	Carbon dioxide
CPF	Country Partnership Framework
CPSD	Country Private Sector Diagnostic
CRM	Customer Relationship Management
DOS	Department of Statistics
ESCP	Environmental and Social Commitment Plan
ESMF	Environmental and Social Management Framework
FM	Financial Management
FMU	Fund Management Unit
FO	Finance Officer
GDP	Gross Domestic Product
GFMIS	Government Financial Management Information System
GHG	Greenhouse Gases
GOJ	Government of Jordan
GRS	Grievance Redress Service
ICT	Information and Communications Technology
IFR	Interim Financial Report
ILO	International Labour Organization
IPF	Investment Project Financing
JE	Jordan Exports
JEDCO	Jordan Enterprise Development Corporation
JLGC	Jordan Loan Guarantee Corporation
KPI	Key Performance Indicator
MENA	Middle East and North Africa
MOF	Ministry of Finance
MOITS	Ministry of Industry, Trade and Supply
M&E	Monitoring and Evaluation
NDFI	National Development Finance Institution
OHS	Occupational health and safety
PCM	Private Capital Mobilization
PDO	Project Development Objective
PforR	Program for Results
PMU	Project Management Unit
POM	Project Operations Manual
SCF	Supply Chain Finance
SME	Small and Medium Enterprise
SOP	Standard Operating Procedures
TVA	Technical Verification Agency
UNIDO	United Nations Industrial Development Organization
WB	World Bank
WBG	World Bank Group

TABLE OF CONTENTS

DATASHEET

BASIC INFORMATION

Country(ies)	Project Name	
Jordan	Jordan: Support for Industry Development Fund	
Project ID	**Financing Instrument**	**Environmental and Social Risk Classification**
P178215	Investment Project Financing	Substantial

Financing & Implementation Modalities

[ ] Multiphase Programmatic Approach (MPA)	[ ] Contingent Emergency Response Component (CERC)
[ ] Series of Projects (SOP)	[ ] Fragile State(s)
[ ] Performance-Based Conditions (PBCs)	[ ] Small State(s)
[ ] Financial Intermediaries (FI)	[ ] Fragile within a non-fragile Country
[ ] Project-Based Guarantee	[ ] Conflict
[ ] Deferred Drawdown	[ ] Responding to Natural or Man-made Disaster
[ ] Alternate Procurement Arrangements (APA)	[ ] Hands-on Enhanced Implementation Support (HEIS)

Expected Approval Date	Expected Closing Date
12-May-2022	30-Jun-2025

Bank/IFC Collaboration
No

Proposed Development Objective(s)

To promote investments and exports by project beneficiary firms in the manufacturing sector and to operationalize the Industry Development Fund

Components

Component Name	Cost (US$, millions)

Development of the Fund's operational capacity and implementation of its main programs.	84.00
Fund Management, Monitoring and Evaluation.	1.00

Organizations

Borrower:	Hashemite Kingdom of Jordan
Implementing Agency:	Ministry of Industry, Trade and Supply

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	102.00
Total Financing	102.00
of which IBRD/IDA	85.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	85.00

Non-World Bank Group Financing

Other Sources	17.00
Local Beneficiaries	17.00

Expected Disbursements (in US$, Millions)

WB Fiscal Year	2022	2023	2024	2025
Annual	0.00	25.00	40.00	20.00
Cumulative	0.00	25.00	65.00	85.00

INSTITUTIONAL DATA

Practice Area (Lead)	Contributing Practice Areas
Finance, Competitiveness and Innovation	

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

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

Environmental and Social Standards Relevance Given its Context at the Time of Appraisal

E & S Standards	Relevance
Assessment and Management of Environmental and Social Risks and Impacts	Relevant
Stakeholder Engagement and Information Disclosure	Relevant
Labor and Working Conditions	Relevant
Resource Efficiency and Pollution Prevention and Management	Relevant
Community Health and Safety	Relevant
Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
Biodiversity Conservation and Sustainable Management of Living Natural Resources	Not Currently Relevant
Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
Cultural Heritage	Not Currently Relevant
Financial Intermediaries	Relevant

NOTE: For further information regarding the World Bank's due diligence assessment of the Project's potential environmental and social risks and impacts, please refer to the Project's Appraisal Environmental and Social Review Summary (ESRS).

Legal Covenants

Sections and Description
The Borrower, through MOITS, shall: (i) assign, no later than one hundred twenty (120) days after the Effective Date, and thereafter maintain as part of the PMU a financial officer and a procurement specialist with qualifications, experience, and terms of reference satisfactory to the Bank; (ii) hire, no later than one hundred twenty (120) days after the Effective Date, a technical verification agency to support the assessment of firm-level baselines and achievement of agreed targets under the outcome-based incentives program; and (iii) adopt, no later than one hundred twenty (120) days after the Effective Date, and thereafter maintain a CRM system acceptable to the Bank.

Conditions

Type	Financing source	Description
Effectiveness	IBRD/IDA	(i) The Borrower has established the Industry Development Fund and its Steering Committee; (ii) MOITS has issued instructions setting out the implementation arrangements of the Fund in form and substance satisfactory to the Bank, and has established the Fund Management Unit; (iii) The Steering Committee of the Fund has adopted the Project Operations Manual in form and substance satisfactory to the Bank; (iv) The JEDCO Subsidiary Agreement has been executed on behalf of the Borrower and JEDCO and is legally binding upon the Borrower and JEDCO in accordance with its terms; (v) The JE Subsidiary Agreement has been executed on behalf of the Borrower and JE and is legally binding upon the Borrower and JE in accordance with its terms; (vi) The JLGC Subsidiary Agreement has been executed on behalf of the Borrower and JLGC and is legally binding upon the Borrower and JLGC in accordance with its terms.

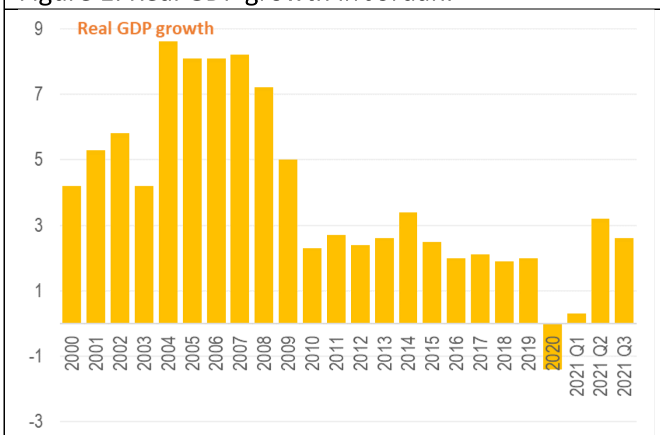
I. STRATEGIC CONTEXT

A. Country Context

1. **Gross domestic product (GDP) growth in 2020 and up to Q3-2021 suggests that Jordan's recovery has been broad-based, although many sub-sectors remain below their pre-pandemic levels.** Jordan's GDP contracted by 1.6 percent during 2020 as the COVID-19 pandemic unfolded (Figure 1). Jordan's real GDP registered a solid 3.2 percent year-on-year rebound in Q2-2021, which has slowed down to 2.6 percent in Q3-2021. Service and industry sectors are among the main drivers of the recovery. Within the industrial sector, the manufacturing sub-sector took up over half of the sectoral growth, however, it remains below the pre-pandemic level.

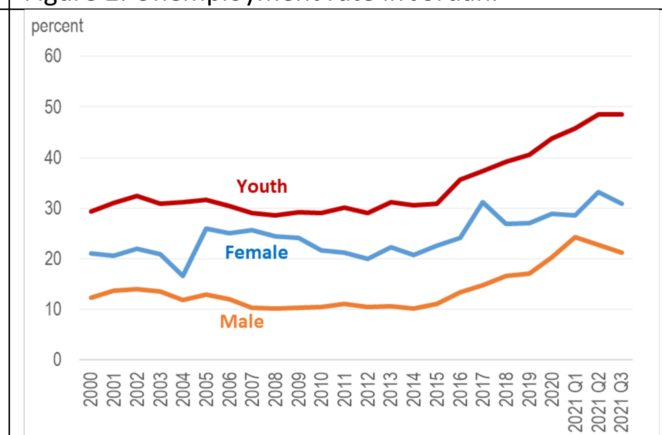
2. **Labor market indicators for the third quarter of 2021 show improvement for the first time since the start of the pandemic, but the shocks exacerbated underlying weaknesses.** Unemployment stood at 23.3 percent in Q3-2021, a slight decrease from 24.8 percent in Q2-2021. Youth and female unemployment were at 48.5 and 30.8 percent, respectively (Figure 2) reflecting structural issues in Jordan's labor market, including a large gender gap.

Figure 1. Real GDP growth in Jordan.



Source: Jordan Department of Statistics (DOS).

Figure 2. Unemployment rate in Jordan.



Source: Central Bank of Jordan, DOS, and ILO (for youth unemployment till 2013).

3. **Jordan urgently needs to create broad-based and inclusive job opportunities**. The working-age population is expected to increase from 4.4 million in 2020 to 6 million in 2030.[1] The labor market remains extremely segmented despite recent reforms. Small and medium enterprises (SMEs) provide over 50 percent of jobs and over a third of Jordanians work informally. Job creation for unskilled labor, 58 percent of total labor, has been slower than for skilled labor. Women labor force participation in Jordan is one of the lowest in the world. This project will contribute to job creation, including for female employees.

4. **To generate enough jobs, Jordan needs to shift towards an export and investment-driven and resource-efficient growth model.** In the last decade, Jordan's public and private investments have weakened, and growth has been driven by consumption: annual private and public consumption growth have averaged 4.5 and 1.2 percent, respectively, whereas public and private investment growth has averaged -5.2 and -3.4 percent, respectively. The Syrian refugee crisis further added to Jordan's political, economic, and social challenges.

5. **In the face of continued pandemic and pre-existing structural constraints, the private sector needs support not only to continue to operate and sustain jobs but also to move from 'survival mode' to a new level of**

[1] National Employment Strategy 2011-2020.

competitiveness. Companies need to reinforce managerial capabilities and invest in strategic areas to make their products competitive for both new and existing export markets, taking advantage of the bilateral and regional trade agreements that Jordan is a party to. Digital transformation and quality management systems are also critical for manufacturing companies to increase their competitiveness and gain stronger participation in regional and global value chains.

B. Sectoral and Institutional Context

6. **Boosting private investment and the economy's export potential are among the top policy priorities in Jordan**. Ministry of Industry, Trade, and Supply (MOITS), together with the Jordan Chamber of Industry, is currently preparing the National Export Strategy, aiming to increase exports and improve their competitiveness in global markets. Increasing investment and exports is one of the pillars in the updated Jordan Reform Matrix. The Government of Jordan (GOJ) acknowledges the strategic role of industrial policy in its Vision 2025.[2] To strengthen evidence-based policy making, MOITS has established an Industrial Observatory to track the performance of the industrial sector and to strengthen industrial analysis to assess the performance, capabilities, and market opportunities of the industrial sector.

7. **As part of Jordan's Economic Priorities Program approved for 2021-2023, the Government plans to establish an Industry Development Fund (the Fund) to stimulate the modernization and development of Jordan's industry sector, improve products, and increase competitiveness.** This project aims at assisting GOJ to establish strong governance and effective delivery mechanisms of the Fund, as well as to provide support for the implementation of the Fund's programs.

8. **To advance manufacturing firms' productivity and their competitiveness in export markets, it is important to innovate and modernize production as well as upgrade managerial capabilities.** Firms that export are generally better performing than non-exporting peers with higher levels of productivity, innovation, and skill levels, driven in part by their greater awareness of global good practices. However, this is not a sufficient condition, because effective innovation means drawing on external knowledge from complementary service sector providers, as recent literature has discussed, including information and communication technology (ICT), logistics, marketing, and others.[3] This feature of linkages between manufacturing productivity and services sectors is considered in the design of this project. One of the reasons for focusing the project on the manufacturing sector is because it is growing and has significant potential, and the project will help maximize delivery efficiency by working with groups of complementary firms.

Snapshot of Jordan's manufacturing sector

9. **Manufacturing is the second-largest employer in Jordan's private sector**. The share of employees in the manufacturing sector stood at 11 percent in Q3-2021, having increased from 9.6 percent in 2018. Of all newly registered companies in Jordan in 2016-2020, around 26 percent were industrial companies. The four largest manufacturing sub-sectors by their value-added are chemicals; food, beverages, and tobacco; textiles and clothing; and machinery and transport equipment.

10. **The pandemic has created a significant liquidity shock for manufacturing companies**. Based on the December 2021 World Bank Group (WBG) tracker survey of Jordanian firms, more than 94 percent of manufacturing firms experienced decreased liquidity; more than 64 percent of them have delayed payments on financial liabilities to suppliers, landlords, or tax authorities. More than 27 percent of manufacturing firms decreased the total hours

[2] https://huzaifazoom.org/about-us/
[3] *https://www.apec.org/Publications/2015/01/Services-Manufacturing-and-Productivity*

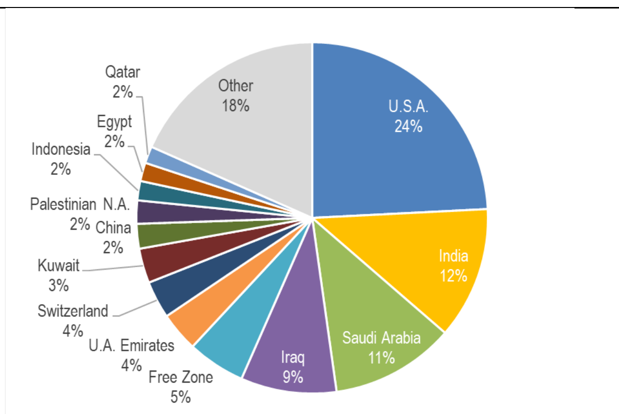
worked per week, and more than 47 percent indicated that they decreased the total number of permanent workers since December 2019.

11. **The impact of the pandemic can have significant implications not only on the capacity utilization and exports of manufacturing firms but also on the overall recovery of the sector.** Based on the 2019 Enterprise survey, capacity utilization of manufacturing firms in Jordan was notably below the Middle East and North Africa (MENA) and global average. In Jordan, it stood at 59.3 percent, compared to 69.8 and 73.2 for MENA and all participating countries, respectively. This can be driven by a variety of factors: some linked to the structural constraints described below, others to the lack of access to global value chains and access to finance, which this project can help to increase. In addition, the increase in energy prices in global markets in 2021-22 is putting pressure on manufacturing competitiveness.

Jordan's exports

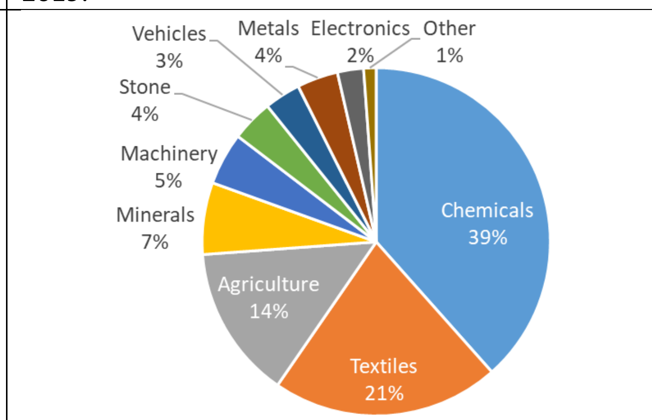
12. **Jordanian exports are highly concentrated in certain countries, sectors, and products.** The top export destinations for goods are the United States of America (USA) (mostly garments), India (mostly chemicals), and Gulf Cooperation Council countries (chemicals, agriculture, etc.) (Figure 3). Chemicals and textiles account for around 60 percent of Jordanian exports. As indicated in the Jordan Country Private Sector Diagnostic (CPSD) (2021), garments are among Jordan's leading exported goods; however, the exports are predominantly sportswear shipped to the USA under a free trade agreement with limited value-added, local employment opportunities, and low profit margins. Jordan's exports have grown by an annual average of around 2 percent from 2013 to 2018, which has been a drag on overall economic growth.

Figure 3. Jordan's exports of goods, by country (2020).



Source. Jordan Chamber of Industry.

Figure 4. The structure of Jordan's goods exports in 2019.



Source: Atlas of Economic Complexity.

13. **Jordan's total exports continued to show a strong recovery in 2021, but the export growth has been lower than in peer countries**. Jordanian exports cumulatively grew by 18.3 percent during eleven months of 2021 against 5.2 percent contraction observed in the same period a year before. Recent strong growth has been a result of exports in clothing, chemicals, potassium, and phosphate. Both favorable export prices for commodities and external demand supported this increase.

14. **There is an increasing urgency to innovate, expand, and diversify Jordan's exports.** According to the Product Complexity Index[4], which measures the knowledge intensity of a product by considering the knowledge intensity

[4] *https://oec.world/en/profile/country/jor?compareExports0=comparisonOption3#economic-complexity*

of its exporters, the highest complexity exports of Jordan are wire of stainless steel, glues and adhesives, ceramics, glass pigments, etc. However, the share of these higher-complexity exports is low in Jordan's export structure (Figure 4). Overall, the largest contribution to export growth has been coming from moderate and low complexity products, particularly travel and tourism and apparel.

15. **Despite the existing challenges, Jordan possesses a comparative advantage in a series of sectors.** For example, the modelling conducted by the International Labour Organization (ILO)[5] estimated Jordan's total unused export potential at US$4.4 billion. Possible export growth is highest for chemical products, followed by clothing and apparel. According to the same ILO study, realizing Jordan's full potential as an exporter would allow for the creation of over a third of the jobs needed to reach full employment for Jordan nationals, and out of the total number of potential new jobs, around 26 percent are expected to be filled by women, which represents a potential for increasing female labor force participation.

Structural constraints in the manufacturing sector

16. **The cost of doing business is a major issue for manufacturing firms in Jordan**. These firms are challenged by energy, logistics, and water costs, all of which are directly linked to manufacturing processes or exports, and smart targeted investments could help firms to overcome these structural constraints at least partly: (i) electricity costs have become a threat to the competitiveness of both existing firms and potential tradable industries.[6] According to Jordan's Enterprise Survey of 2019, sixteen percent of manufacturing firms perceived electricity as their biggest obstacle; (ii) because Jordan is such a water-stressed country, water production costs are high; (iii) transport and logistics: Jordan's high freight transport costs serve as barriers not only to increase trade flows but also to attracting foreign direct investment. Jordan ranks below the regional average in the Logistics Performance Index.[7]

17. **The issues listed above are cross-cutting for the private sector development and need reforms and scaling up of investments in infrastructure on one hand, and on the other, support to companies so they can make smart investments that strengthen their competitiveness**. The Fund's programs will support the implementation of efficiency systems, and climate-smart solutions, which can help reduce the burden linked to energy/water usage management and costs. The project will build on the recent positive and relevant changes that GOJ has undertaken to reduce the cost of doing business for companies. Also, the WBG is supporting ongoing reforms on sectoral licensing as well as strengthening the investment policy framework.

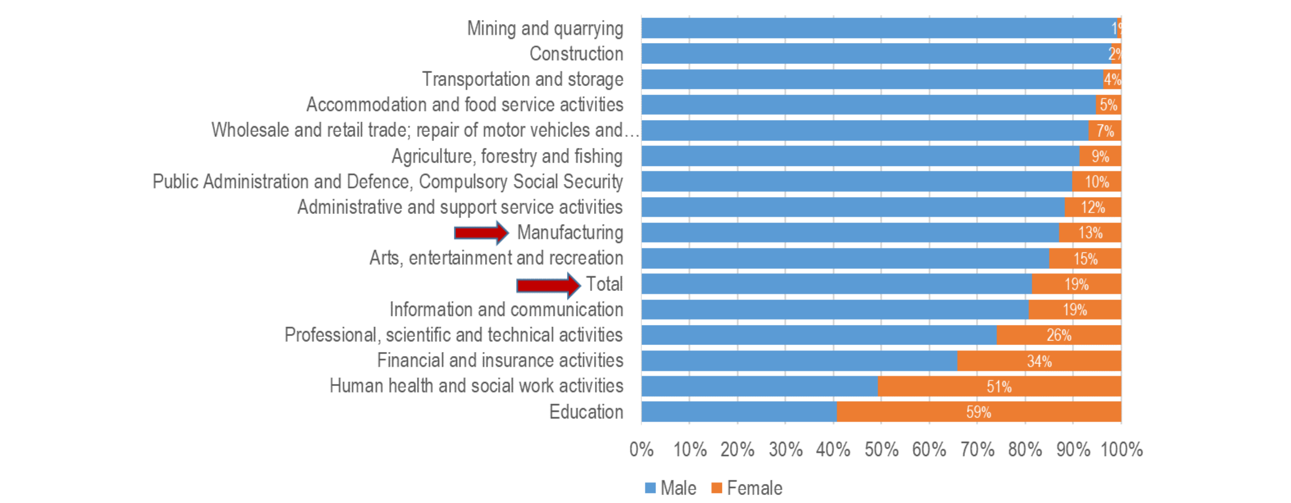
Gender gap in the manufacturing sector

18. **Reflective of a large gender gap in Jordan's labor market, only 13 percent of all manufacturing employees in Jordan are women (Figure 5).** The average across different sectors was around 19 percent in 2020, indicating a large untapped potential in terms of female labor market participation in Jordan. According to the 2019 Enterprise survey, 18.7 percent of manufacturing firms had female participation in the ownership, compared to 32 percent average in all participating countries, and 22.6 percent average across sectors in Jordan. Moreover, only 3.1 percent of manufacturing firms declared majority female ownership, compared to 8.1 and 13.2 percent average in Jordan and all participating countries, respectively. Of all surveyed manufacturing firms, only 2.6 percent had a female top manager, compared to an average of 15.3 percent in all participating countries. Based on January

[5] More Trade for More Jobs. Identifying the Employment Potential of Jordan's Exports. ILO, Amman Office, April 2019.
[6] Hausman et. Al (2019), "Jordan: Elements of a Growth Strategy", CID Faculty Working Paper No. 346 February 2019 Revised April 2019, Harvard University
[7] As indicated in the Jordan CPSD (2021), difficult economic times have discouraged investment and innovation in production and in domestic and international trade, and thus in logistics services. The recommendations to enhance the logistics sector in Jordan include: develop a regulatory framework that allows for the introduction of an electronic market and operation of digital platforms to facilitate matching supply and demand for trucking services; eliminate restrictive rules on access to Aqaba; introduce tariff classifications for new imported products to reduce delays at customs due to lack of knowledge of what the products are used for; introduce procedures to facilitate e-commerce; promote the concept to potential locators, both regional and international; etc.

2021 WBG tracker survey, almost 28 percent of female workers in the manufacturing sector took 5+ days of leave or quit since the previous round of the survey, the largest share among other key surveyed groups.

Figure 5. Share of male and female employees in Jordan, by economic sector (2020)



Source. DOS.

19. **According to a recent survey on women's entrepreneurship in MENA, the lack of financing and lack of access to new markets are among the key obstacles for women in Jordan to grow their businesses.**[8] This project can help address these constraints both through export development support as well as through increased access to export credit insurance. The World Bank will leverage its experience in addressing gender gaps, including knowledge products and engagements under the Mashreq Gender Facility. For example, the analytical work related to expanding satellite work modalities as a means to attract women into the workforce may be relevant to build on; also, a study to explore the export readiness of female businesses is currently underway and can inform the project implementation.

20. **This project includes measures that will contribute to addressing gender gaps and disparities between women and men in the manufacturing sector, for example, by targeting increased female employment through the outcome-based support program.** The Gender Action Plan, as part of the project operations manual (POM), will guide how the implementation of the Fund's programs can address gender gaps in the employment aspects of the manufacturing firms, as well as in the engagement of female-owned and led SMEs through targeted measures. Increased female employment is included as one of the intermediate results indicators for the project. To facilitate the achievement of this indicator, the outcome-based incentives program will encourage participating firms to undertake gender-responsive actions such as hiring more female employees; increasing the share of women in management positions; adopting improved workplace conditions for women; or giving incentives to female employees, for example, transportation and childcare. The project is aligned with the MENA Regional Gender Action Plan's focus on expanding women's economic opportunities, which in turn is aligned with the WBG Gender Strategy priority area of more and better jobs.

Climate change and Jordan's manufacturing sector

21. **Jordan's climate has changed over the past decades and impacts will intensify as climate change unfolds**. Since the 1960s, annual maximum temperatures have increased by 0.3-1.8 ºC and minimum temperatures have

[8] *https://www.unido.org/sites/default/files/files/2019-02/MENA_REPORT_EN.pdf*

increased in the range of 0.4-2.8 ºC across the country, and annual precipitation declined about 5-20 percent. Future climate modelling shows (i) further decrease in total precipitation; (ii) increasingly unpredictable and heterogeneous precipitation across the landscape; (iii) an increase in average temperatures; (iv) increased rates of drought occurrence, length, and severity; and (v) more frequent extreme events.

22. **This operation has been screened for short and long-term climate change and disaster risk.** Jordan's manufacturing sector can be affected by climate change both through physical as well as transition risk channels. Extreme heat and water scarcity are driving up energy demand and price, which has a direct impact on manufacturing sector competitiveness. Costs of energy and water are a large cash outflow both in manufacturing operations and in services. Climate variability in Jordan can affect manufacturing firms' physical infrastructure and/or force some firms to relocate their operations geographically. Project activities will be country-wide, as Fund's programs will be open for manufacturing SMEs operating in different parts of Jordan. However, most manufacturing SMEs and industrial plants are concentrated in three of the 12 governorates in Jordan, which are Amman, Zarqa, and Irbid. Industries are typically located in urban areas. Transition effects, such as changing consumer preferences; increasing demand for green products; climate-responsive trade standards, all can impact the volume and dynamics of Jordan's manufacturing exports.

23. **Industry is the third-highest contributing sector to carbon dioxide (CO2) emissions in Jordan**. Two other sectors in the Jordanian economy whose CO2 emissions have been on the rise in the last three decades were electricity and heat production, and transport. As such, implementing energy efficiency solutions through the support of this project to manufacturing firms can contribute to lower CO2 emissions in Jordan's energy sector. Manufacturing is one of five priority systems/sectors in the WBG Climate Change Action Plan 2021-2025.

24. **Matching grants provided through the Fund's Industry upgrading and Export development program will support firms in implementing climate-smart solutions**; modernizing production processes; attaining green certification; and other actions that will increase their resilience and sustainability from the climate change perspective. Moreover, replacing traditional energy means with renewable energy, increasing the efficiency of water and electricity use, and improving waste management, will be included as one of the target criteria in the outcome-based incentives program. All these measures will directly address climate change impacts on manufacturing firms, both on the adaptation side (e.g., will help firms to adapt to increasing water insecurity) as well as mitigation side, e.g., replacing traditional energy means with renewable energy sources and increasing energy efficiency. The implementation of the climate-smart solutions and increasing firms' climate resilience and adaptation under the Fund's programs will also benefit from the ongoing WB's work under the Competitiveness for Jobs and Economic Transformation grant "Jordan Green Competitiveness and Investment for Growth", which includes an assessment of key barriers and opportunities that Jordanian manufacturing firms are facing when it comes to implementing climate-smart business practices. These findings can help to integrate into the Fund's programs a targeted diagnostic and focused technical support to facilitate the green transition of beneficiary firms.

Institutional context

25. **To ensure sustainable recovery and resilience of the Jordanian private sector, including manufacturing firms, a broader reform agenda, and improved reform implementation are necessary**. The WBG Jordan Economic Monitor (Spring 2021: Uncertain and Long Trail Ahead) and the 2021 CPSD provide a detailed picture of the structural challenges faced by Jordan's private sector and how they have been exacerbated by the Covid-19 pandemic. Many of the necessary reforms are anchored in the Jordan's Growth Matrix that the Jordanian Government developed and launched in collaboration with the WBG and other development partners in 2019. The current government

has carried over the Growth Matrix's reforms and proposed tailored programs to achieve enhanced growth as reflected in the Jordan's Economic Priorities Program in 2021.

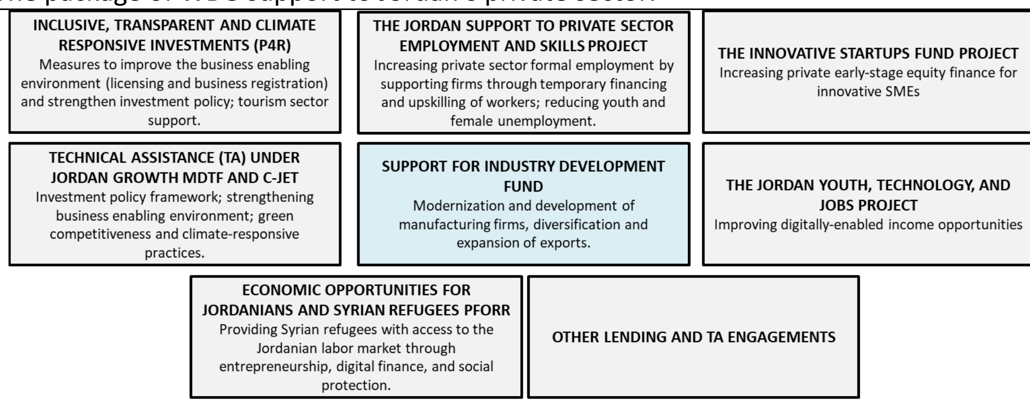
26. **The Industry Development Fund, which is a part of the Economic Priorities Program, will be established based on a special bylaw, defining its mandate, financing sources, and governance structure.** The Fund will be housed at the MOITS, which will be the key implementing agency for the Project. MOITS is the key entity in Jordan responsible for industrial, trade, and (internal) supply policies, including the regulation of the internal and external trade, industrial development, and competitiveness, as well as business registration.[9] The Government has requested the World Bank support in designing the Fund, defining, and implementing its activities at US$85 million. The Government plans to allocate financing for the Fund from the central budget in the next three-five years. Overall, the Fund will play a leading role in effectuating industry development policies and programs in Jordan, will be developed as an efficient, transparent, and effective delivery mechanism for firm-level support that will also be able to be utilized by the government and other donors for other projects, and it will be a key financial enabler for industrial transformation. In implementing its programs, the Fund will closely cooperate with existing institutions and will complement the ongoing support for manufacturing firms (Jordan Enterprise Development Corporation-JEDCO; Jordan Exports-JE; Jordan Loan Guarantee Corporation-JLGC; Jordan Chamber of Industry; etc.).

27. **MOITS is one of the implementing entities in the 'Economic Opportunities for Jordanians and Syrian Refugees Program for Results (PforR) (P159522)'**, with the role to enhance the business and investment environment to be more competitive through developing economic policies and legislation to guarantee protection of the rights and interests of both the consumers and the business sector. MOITS is also involved as an implementing entity in the 'Jordan Inclusive, Transparent and Climate Responsive Investments PforR (P175662)', which supports better, climate-informed governance and business environment policy reforms and legal and regulatory changes, as well as sector development strategies, with an emphasis in green investments and carbon lock-out. The Jordan's 'Investor Journey Reform Program' (with MOITS playing a key role), supported by the International Finance Cooperation (IFC), aims to improve government-to-business service delivery, increase the efficiency of businesses and government, reduce compliance costs and length of time for business services delivery.

28. **This project will complement an integrated package of support for private sector development that the WBG is implementing in Jordan.** In addition to the projects mentioned above, the 'Innovative Startups Fund Project (P161905)' is focused on increasing private early-stage equity finance for innovative SMEs, including in the industry sector. The newly approved 'Jordan Support to Private Sector Employment and Skills Project (P177959)' aims to increase private sector formal employment by supporting firms through temporary financing and upskilling of workers; reducing youth and female unemployment, including in the industrial sector. The 'Youth, Technology, and Jobs Project' aims at creating digitally-enabled economic opportunities in Jordan. All these and other WBG support programs, including the GOJ economic stimulus package, along with this project, constitute a coherent support package for the private sector in Jordan.

[9] The estimated 2021 budget for the ministry was more than JD11 million.

Figure 6. The package of WBG support to Jordan's private sector.



Source: Staff illustration.

C. Relevance to Country Partnership Framework

29. **This project is fully aligned with the WBG Country Partnership Framework (CPF) for Jordan (FY2017-2022) and the WBG COVID-19 Crisis Response Approach Paper; and supports the approach of Green, Resilient and Inclusive Development and implementation of Jordan's nationally determined contributions (NDC)**. This operation is part of the WBG program focusing on supporting businesses, accelerating recovery, and strengthening economic resilience, with a focus on boosting exports. The project directly supports Pillar 1 of Jordan's CPF - '*fostering the conditions for stronger private sector-led growth and better employment opportunities for all*'. The project will support the implementation of the Fund's programs, which will contribute to a sustainable recovery and resilience of Jordanian manufacturing through firm-level support for industry upgrading, strengthening export readiness, as well as enhanced access to export credit insurance. This project fits well into the expanded MENA Regional Strategy[10].

30. **This project is aligned with Jordan's national strategies and will complement the ongoing support programs for different economic sectors in Jordan, including manufacturing, which have been launched as part of GOJ's COVID-19 recovery package**. Deepening access to finance is one of the horizontal pillars of Jordan's Reform Matrix. The GOJ's national plans so far have been focused on supporting a private sector-led growth model in the country through improving the business environment, increasing competitiveness, attracting foreign direct investment, and increasing exports. The Reform Matrix, currently undergoing a mid-term review, specifically focuses on the active role that SMEs should play in growing the Jordanian economy and creating jobs, including in the manufacturing sector. The Matrix also includes a focus on expanding opportunities for youth and women, with a specific aim to improve the business environment as a means to increase female workforce participation. This project will also support the implementation of Jordan's new Export Strategy, which is currently under preparation.

31. **This project will advance the implementation of the WBG Climate Change Action Plan, as well as contribute to Jordan's NDCs through appeal and support to manufacturing firms in scaling up their climate change mitigation and adaptation efforts.** The respective support will be provided to industry firms through incentives for the implementation of climate-smart solutions across the value chain (resource use efficiency, minimization of

[10] *https://www.worldbank.org/en/region/mena/brief/our-new-strategy*

energy/water use, and waste). The Industry Development Fund will help utilize the momentum of post-COVID-19 economic recovery to reorient the industrial sector out of lock-in on carbon-intensive technologies and practices, will support achieving long-term NDC commitments and voluntary Corporate Environmental and Social Responsibility targets, which in turn will make industrial firms more competitive globally and more resilient to climate and economic shocks.

II. PROJECT DESCRIPTION

A. Project Development Objective

32. **The Project Development Objective is to promote investments and exports by project beneficiary firms in the manufacturing sector and to operationalize the Industry Development Fund**. This will be achieved through supporting the implementation of the Fund's programs as well as through building effective delivery mechanisms and robust governance and operational capacity for the Fund itself, to enable it to support the transformation of the industrial sector in the longer term.

33. **The project includes climate-sensitive elements and measures to benefit vulnerable groups and enhance the gender balance.** A gender focus to ensure women as business leaders/owners, as well as employees, will be integrated, as well as a focus on the needs of vulnerable groups.[11] The gender-tagging of the Fund operations will be guided by the Gender Action Plan, including addressing the increased vulnerability of female workers in the manufacturing sector during the pandemic. The project will engage information on climate risks, climate resilience measures, and global trends in climate change mitigation and adaptation, to inform actions/investments that enhance productivity and/or competitiveness in the manufacturing sector.

PDO Level Indicators

34. **The PDO will be measured through these 3 indicators:**

(a) Increase in private investment by beneficiary firms of the project.

(b) Increase in annual export values by beneficiary firms of the project.

(c) The Fund is fully operational and beneficiary firms receive access to financial and advisory support through the Fund's programs.

B. Project Components

35. **The main activities financed by the Fund will include** the following programs: (i) Industry upgrading (implemented by JEDCO) and Export development (implemented by JE) programs providing matching grants to manufacturing firms to modernize their operations leading to improved product quality and upgraded production processes, increased exports through access to new markets and expanding in existing ones, as well as a reduction in resource consumption and waste or emissions; (ii) Outcome-based incentives program (implemented by MOITS/Fund) providing incentives to firms that achieve targets in areas critical to ingachieving the sector's full potential (higher female employment; introduction of new exportable products; energy/water efficiency; emission reduction; etc.); and (iii) easing access to export credit insurance (implemented by JLGC) and to new supply chain finance (SCF) products.

[11] Findings from several studies and reports under the Mashreq Gender Facility workplan will be incorporated. Namely: the supply and demand landscape analysis of childcare services, transformation plan towards digital payments of salaries across sectors to ensure wage protection; Expansion of Satellite (remote) Units Modalities to Sectors that Employ Women; also, a study to explore export readiness of female businesses is underway and can contribute during the project implementation stage.

36. **It is important to note that these three programs form an integrated support package for beneficiary manufacturing firms.** The Fund will plan to implement a 'cohort-based' approach, where the financial support will be combined with technical business development support provided by implementing partners to selected groups of firms.[12] The due diligence conducted for this project indicates that results-oriented matching grant-type programs, at present, can be an important complement to existing access to finance instruments intermediated through banks by de-risking activities that firms may otherwise not undertake.[13]

37. **The project will be structured around two components:** (1) Development of the Fund's operational capacity and implementation of its main programs (US$84 million); and (2) Fund management, monitoring, and evaluation (US$1 million). Fund's administration costs are expected to be higher than US$1 million, and additional costs of around US$3-4 million would be expected to fulfill institutional requirements by implementing partners.

Table 1. Project components

Component	US$, million
Component 1: Development of the Fund's operational capacity and implementation of its main programs.	84.0
Main programs include:	
Industry upgrading program (JEDCO) and Export development program (JE).	26.0
Outcome-based incentives program (MOITS/Fund).	56.0
Increased access to export credit insurance (JLGC) and new supply chain finance products.	2.0
Component 2: Fund Management, Monitoring and Evaluation.	1.0
Total:	**85.0**

Component 1: Development of the Fund's operational capacity and implementation of its main programs

Governance and legal status of the Fund

38. **The Fund will be established based on a special bylaw.** The Government has prepared a special bylaw that defines the fundamental elements of the Fund's governance structure, management, mandate, financing sources, and financial management. According to the bylaw, the Fund will be housed at MOITS, and its management will be undertaken by the Steering Committee comprised from public and private sector representatives, including at least 25 percent women. A Fund Management Unit (FMU) will be established to support the operations of the Fund and the implementation and monitoring of its programs.

39. **The Fund is not envisaged as a self-sustainable institution, but rather as a vehicle to grant state support to the private sector following an integrated approach that brings additionality.** The Fund will not be regulated as a financial institution, and thus its oversight will not involve the Central Bank of Jordan, and the respective requirements for Fund's operations and governance will be defined in a special bylaw, instructions, and methodologies, that will also ensure high transparency and continuity of Fund's operations. The Fund will be

[12] The three programs will be interconnected, as the implementing partners (JLGC, JEDCO, and JE) will closely coordinate among each other (through regular meetings, exchange of information, and establishment of a shared database). There are several types to group beneficiary firms into cohorts: (i) cohorts of firms who are grouped when they have similar issues to be addressed (or tied to particular KPIs); (ii) value chain development projects, involving a lead buyer and potential suppliers; (iii) collaborative projects (e.g., where a promising market opportunity is identified that requires a holistic solution combining the products of various firms, and this cohort is brokered and a solution is developed).

[13] Liquidity in Jordan's banking sector has persistently been high. In addition, the NPL ratio has remained at relatively low levels in the past few years, with only a slight increase during the pandemic. This indicates that there may be structural issues in the banking sector related to the risk-taking of banks. Significant share (more than 37%) of banks' credit is issued to large corporates.

effectively a vehicle to administer government support of industry competitiveness and implement industrial transformation programs.

40. **Fund's support will be channeled to beneficiaries directly as well as through JEDCO, JE, and JLGC, which will take the role of implementing partners under subsidiary agreements signed with the Fund**. Using these implementing partners will enable the Fund to make support more efficient by leveraging existing mechanisms and capacities, and increasing the outreach. JEDCO is an SME agency, with a board of directors chaired by the Minister of MOITS. JEDCO currently runs several development programs (technical assistance and grants), some of which support industrial companies to start or enhance their exports. JE is a not-for-profit public-private shareholding company mandated as the leading national organization responsible for the promotion of exports of Jordanian products and services. JEDCO and JE are not considered financial intermediaries as their activities are limited to providing technical assistance and channeling grants to beneficiary firms.

41. **JLGC is an autonomous loan guarantee entity in Jordan and is subject to regulations of the Jordan Securities Commission.** JLGC is providing financial services (guarantees), however, it's important to note that World Bank funding under this project will not be used to generate financial contractual obligations because there will be no interest, repayment, or credit risk involved between Fund/JLGC and beneficiary firms. In addition, the project funds are not used to increase the capitalization or liquidity of JLGC itself, as JLGC will continue issuing export credit insurance using its own capital; project funds are only used to cover part of the insurance premium paid by beneficiary firms to JLGC, with no effect on other parameters of the insurance product. The JLGC's financial sustainability is not being affected by the project since it will continue to effectively charge a full premium for export credit insurance.

42. **Having simple, lean, but effective and robust mechanism for the selection of beneficiary firms will be one of the key success factors for the Fund's programs**. The implementing agency (MOITS) and project implementing partners will establish a transparent selection process. Each entity will have its own independent selection committee. These committees will include private sector experts, with at least 25 percent women. Successful applicants will be made public, and unsuccessful applicants will be provided actionable feedback on why they were unsuccessful. The selection of beneficiaries for the export credit insurance program will be conducted by JLGC following its standard procedure. The Fund will create and supervise a coordination mechanism among the implementing partners to ensure that the three programs are interconnected to create a transformational impact.

Fund programs

Industry upgrading (JEDCO) and Export development (JE) programs

43. **The Fund will provide matching grants to manufacturing SMEs for industry upgrading as well as for enhancing export development.** Industry upgrading program will support the activities such as the expansion of production lines; quality certification; modernization of production processes to increase value-added, reduce energy/water demand, increase the overall efficiency of input resources and materials, waste minimization, etc. The Export development program will cover the costs that firms incur in accessing new markets or expanding in existing ones, including registration fees and establishment costs of business development offices at target markets; firm-level marketing and promotion activities at target markets; participation at trade fairs; voluntary "green" and "sustainable" certifications in accordance with international product certification standards. Firms will have to cover 30-50 percent of eligible expenditures from their own resources, with the remaining being covered by the grant from the Fund. There will be a maximum grant size (ceiling) defined (see Annex 1 for more details).

44. **Implementing partners will cover the respective administrative and operational costs linked to the programs' implementation.** The pre-identified partners to implement the programs are JEDCO and JE. They will have to

submit an application/ proposal to MOITS to present a robust plan for the support of the implementation of the Fund's programs, confirm their readiness to support the project and to show that they can reach a sufficiently large set of SME beneficiaries. These implementing partners will use their resources to provide technical coaching to SMEs. Interested firms will be publicly invited to submit their applications.

45. **The two programs are calibrated to respond to the needs and characteristics of Jordan's manufacturing SMEs.**[14] For example, the grant size is smaller compared to the loans that bankable medium and large firms could normally get from banks. Target beneficiaries for these programs are SMEs facing barriers in accessing traditional commercial financing, and the share of matching is relatively small to encourage firms with limited access to finance to apply. There will be handholding/ technical support through mechanisms that have been used successfully in other countries, to fill existing gaps in managerial capacity, access to markets, etc. To encourage female-led and owned SMEs to take part and ensure that the project reaches the target of 10 percent of benefiting firms being female-led/owned,[15] the project will use mechanisms in the existing SME ecosystem like women-focused incubators and accelerators, business associations, and networks to first engage with as partners and to provide targeted and focused information regarding ways to benefit from the program. The project Gender Action Plan will lay out further details.

46. **The implementing partners will sign agreements with each company to provide matching grants against eligible expenditures**. The beneficiary firms will provide evidence of eligible expenditures and milestones (mostly linked to a procurement process) to the implementing partners to receive payments based on the signed agreements. Eligible firms will procure services and goods to implement their production upgrading/export expansion plans directly from private sector vendors following commercial practices. Details of services and eligibility criteria and procurement procedures will be included in the POM. The key difference between the industry upgrading and export development programs is that the export development support is focused on 'soft' measures, while the industry upgrading program includes upgrading production lines, expanding/modernizing asset base, etc. The same firm can apply to both programs. Caps will be set on the amount of incentives that can be accessed by a given firm. The project will apply a modular approach, allowing firms to apply to each of the programs, and tailor the support they receive within each program. Where relevant, diagnostics will be used to assess the needs of the companies and provide guidance about the support, and, where needed, set firm-level monitoring targets that will trigger payments. To monitor progress, there will be site visits and regular reporting to the Fund.

Outcome-based incentives program for manufacturing firms

47. **This program will be managed directly by the FMU, and MOITS will leverage the existing staff and their experience in implementing the export rebate program.** Under the program, the Fund will incentivize manufacturing firms to improve performance in areas critical to realizing the sector's full potential, as well as to facilitate spreading best practices across the economy. The program's concept is a simplified version of the underlying mechanism for Development Impact Bonds' outcome financing part.[16] As such, the program is focused primarily on rewarding firms on key outcomes that are important for industrial development and transformation. It will provide incentive payments to manufacturing firms following the achievement of specific firm-level outcomes, to finance eligible expenditures that have been incurred and can be associated with the achievement of the agreed outcome.

[14] The following is the SME definition (in terms of a number of employees) that will be used in the Fund's programs: (i) small: less than 25; (ii) medium: 25 – 249; and (iii) large 250 and above.

[15] Currently, in the manufacturing sector, only 3.1 percent firms declare majority female ownership, and only 2.6 percent have female top manager.

[16] Impact bonds are a type of results-based financing in which private investors provide upfront capital to fund an intervention that is later repaid by the "Outcome Funder" after achieving the agreed results. A common theory about impact bonds is they deliver better results due to flexibility, strong performance management, and data-driven decision making.

48. **The Fund will set and announce the list of Key Performance Indicators (KPIs) and eligibility criteria to benefit from the program**. KPIs will include but are not limited to the following: increasing production capacity; introducing new exportable products; replacing traditional energy means with renewable energy sources and increasing the efficiency of water, electricity, and waste management; an increasing number of female employees (to address the gender gap in the manufacturing sector); an increasing number of employees with special needs.

49. **KPI values will be set for each firm based on a firm-level assessment**. In the initial stages, the Fund will hire a Technical Verification Agency (TVA), which will support the assessment of firm-level baselines and achievement of agreed targets. The TVA can also support similar assessments and verifications required for other programs of the Fund. However, the involvement of the agency will be gradually phased out to ensure that the respective role and skills are transferred to the MOITS/Fund and key partners. This will help to build institutional capacity and contribute to sustainability beyond the project's lifetime. The target values for KPIs will have to be aligned with the pre-defined and publicly available range for each KPI. To be eligible to receive an incentive payment from this program, small companies will have to achieve at least one KPI, medium firms – at least two KPIs, and large firms – at least three KPIs, one of which will have to be linked either to increased female employment or climate change/resource efficiency solutions. This differentiation reflects the fact that many smaller firms in Jordan are facing technical capacity issues as well as a lack of financial resources, while larger firms have higher readiness to achieve more ambitious outcomes.

50. **Manufacturing companies will enroll in the program to establish baselines and targets, which will be monitored as implementation advances.** The TVA (and MOITS/Fund in later stages) will evaluate the performance of enrolled companies at the end of the year to confirm their achievement. They will confirm the eligibility of companies that achieve or exceed their pre-set firm-level targets. More details on program parameters are provided in Annex 1.

Increased access to export credit insurance and new supply chain finance products

51. **The primary focus of this program is to ease access to export credit insurance for manufacturing firms through JLGC, with a focus on SMEs.** Export credit insurance protects exporters from a non-payment by buyers and includes protection from commercial risks (such as a non-payment or insolvency of the buyer; refusal to accept the shipped goods) as well as political risks (such as any government decisions to prevent the entry of goods). Thus, this program opens new markets and ensures that exporters will be covered without the need to ask for cash in advance. One of the benefits that exporters see from participating in this export credit insurance program is to use the policy to get financing from the banks on better terms, other than letters of credit, such as open accounts and drafts. This means that Fund's support to SMEs participating in this program will have a positive spillover effect and will significantly increase the overall development impact through increased access to finance.

52. **The following are the key features of the JLGC export credit insurance program:** (a) The objective of the program is to encourage Jordanian exports by providing insurance against the risk of non-payment by the buyer for the goods and commercial and non-commercial risks; (b) the insurance premium is determined based on a risk assessment of the buyers who will import the goods and sales volume of the applicant firm; (c) Maximum credit limit is US$10 million; (d) Credit period is 18 months, it can be extended with exception; (e) Insured percentage is 90 percent; (f) Insurance coverage: (i) commercial risks: non-payment by the buyer, insolvency of the buyer, and the refusal the buyer to accept the shipped goods; and (ii) non-commercial risks: government restrictions on currency conversion, any government decisions and regulations that prevent the entry of goods, and wars and civil disturbance. The program will be scaled up as a result of the project, with a focus on SMEs.

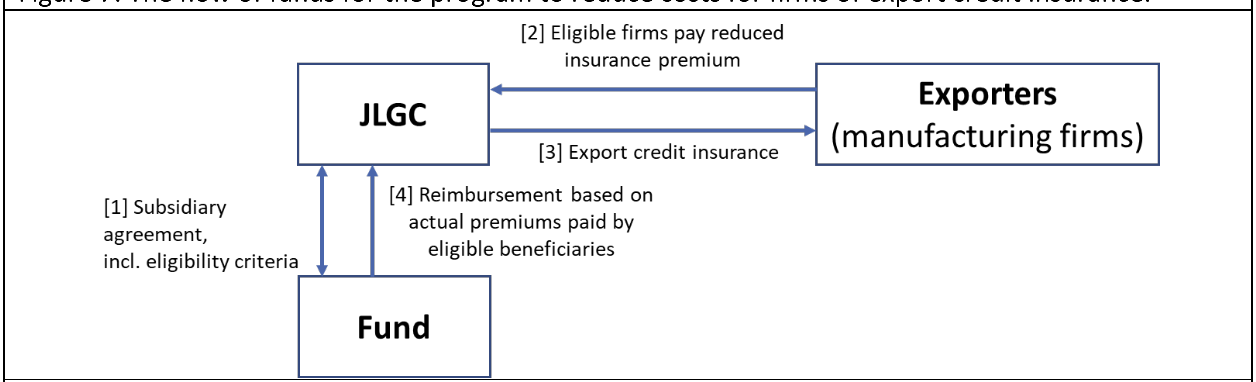
53. **Since many smaller exporters are concentrated on riskier markets, this leads to a higher insurance premium**, and the cost of insurance tends to inhibit the participation of companies that are not aware of the benefits of this instrument (currently, only around five to seven small firms participate in the program). Therefore, smaller

exporters would benefit more from a temporary reduction in the export credit insurance premiums to be supported by the Fund. It is worth mentioning that JLGC has developed information on the risk of buyers for Jordanian exporters in main markets, especially in MENA, and it has appropriate risk management in place which has been effective during the recent pandemic.

54. **The Fund will cover part of the export credit insurance premium for beneficiary firms, based on a subsidiary agreement between the Fund and JLGC.** The maximum amount of the subsidy for a single exporter should not exceed 35,000 JD (US$49,350) annually.[17] As indicated by JLGC, around 40 exporters are currently benefitting from the export credit insurance program. Going forward, the Fund could support around 45 additional companies, leading to around JD 300 million additional exports covered by the insurance over three years, with the total support from the Fund of around JD1.1 million for insurance premium payments by beneficiary firms.

55. **The criteria for selecting the exporting firms to be included in the program will be agreed upon between JLGC and the Fund, with a focus on smaller exporters (incentivizing the participation of women-owned and led firms).** Fund's support will create additionality by targeting both a higher number of firms participating in the export insurance program as well as an increased amount of exports covered. The agreement would also entail JLGC's commitment to conduct a broad awareness campaign to increase the number of applying firms because a lack of awareness of the benefits of export credit insurance among smaller companies is an important barrier limiting the number of participating firms. This campaign will target women and youth, by partnering with relevant stakeholders for increased outreach.

Figure 7. The flow of funds for the program to reduce costs for firms of export credit insurance.



Source: Staff illustration.

56. **To complement the JLGC export credit insurance program, the Fund can support the rollout of the SCF platform that will stimulate exports by optimizing manufacturing firms' liquidity along the supply chain.[18,19]** This can be achieved through establishing a national supply chain platform providing access for manufacturing firms to SCF

[17] The export credit insurance premium is a percentage of the total value of insured shipments.

[18] SCF is defined as the use of financing and risk mitigation practices and techniques to optimize the management of the working capital and liquidity invested in supply chain processes and transactions. SCF is typically applied to open account trade and is triggered by supply chain events. SCF has been evolving partly as a response to a global trend of expanding trade on open account. Visibility of underlying trade flows by the finance provider(s) is a necessary component of such financing arrangements which can be enabled by a technology platform [https://iccwbo.org/content/uploads/sites/3/2017/01/ICC-Standard-Definitions-for-Techniques-of-Supply-Chain-Finance-Global-SCF-Forum-2016.pdf].

[19] Globalization and digitalization are influencing how the parties in a supply chain work with each other. The emergence of fintech and new technologies in financial services fuels the optimism that new solutions are being created to close the finance gap, especially for SMEs. Modern SCF solutions are perceived to be among those solutions that aim to overcome traditional lending limitations. Development banks, central banks, and other public institutions around the world, in accordance with their mandates and depending on the circumstances of their specific markets, are actively exploring SCF solutions as a viable way to facilitate more access to credit to SMEs [https://documents1.worldbank.org/curated/en/359771613563556978/pdf/Supply-Chain-Finance-by-Development-Banks-and-Public-Entities-Handbook.pdf] This project can contribute to the development of the modern solutions that could be championed in Jordan as well as across and beyond the regional boundaries.

products, developed and prioritized based on the actual needs of manufacturing firms, and can include factoring, receivables discounting, distributor finance, or other products. The platform would connect exporters, suppliers, and financial institutions, through a modern technology that intermediates these three key parties and allows exporters to access the needed products faster, giving them more flexibility in trading products. Participating financial institutions would offer their SCF products on a competitive basis. In the Middle East region, SCF accounts for only 10 percent of total trade finance; the rest are traditional trade finance instruments. This shows significant potential for the expansion of innovative SCF solutions. There are successful examples in the MENA region that could be leveraged in Jordan.

57. **The platform would require an initial investment to develop the technology and infrastructure, and this can be supported through the Fund**. In later stages, when the program reaches the scale, the platform can be maintained and upgraded through strategic partnerships and engagement of the private sector and financial institutions. Depending on the ambition and success in the implementation, the platform could become regional.[20] The development of a national supply chain platform will require certain pre-conditions, including enhancing the related regulations and conducting diagnostic studies on supply and demand. Commercial banks and other financial institutions would be involved in the development of the platform to make it aligned with commercial practices, as would other stakeholders. Overall, the development of the SCF platform will require more detailed stakeholder consultations, to assess the market demand and potential scale of the platform and to clarify required enhancements in the existing regulatory framework. Relevant lessons learned from other initiatives to establish SCF programs would be considered.

Coordination of Fund's programs

58. **The fund will create and supervise a coordination mechanism between the three programs, and this will help to create a transformational development impact and will make the Fund's support more integrated.** For example, the same firm can apply to all three programs of the Fund. Industry upgrading can help a firm to modernize its production. The same firm can apply to JLGC export credit insurance, which will facilitate access to export markets. This, combined with a targeted export development support through the export development program, will contribute to increased export values, which can be one of the KPIs in the outcome-based incentives program. In addition, to create linkages between firms, and to benefit from the economy of scale, the Fund's programs will be planned to include the 'cohort-based' approach, where a selected group of beneficiary firms receive integrated support. However, while the same firm can apply to each program multiple times, there will be a cap on the support that one firm can get from the program over one 'program cycle', which is 24 months. (Annex 1).

Component 2: Fund Management, Monitoring, and Evaluation.

59. **This component will cover management, administration, monitoring, and evaluation of the Fund activities and capacity building of its staff.** The support will cover technical advisory services, to manage, coordinate, monitor, and evaluate the project, including operating costs, and annual audits. This component also supports the development of the overall design of the initial Fund's programs. The Fund management will be undertaken by the Steering Committee, supported by the FMU and additional experts engaged in designing programs and in conducting a verification/assessment for the outcome-based incentives program. The eligible expenditures under

[20] A robust implementation of an SCF program would require targeted efforts on staffing and technology side. SCF is basically a financial service, requiring strong strategic and financial planning, as well as modern technologies behind the SCF platform, including to track the triggers of specific supply chain events, etc. Moreover, it would be critical to develop connections between the SCF platform and other national databases and systems, including information administered by JLGC, and potentially amended in the future by the information hosted by financial institutions who decide to join the platform.

this component do not include all the administrative and operational costs linked to the Fund programs that will be implemented by project partners.

Eligible expenditures

60. **Project eligible expenditures are twofold:** (i) expenditures incurred for the implementation of Fund programs, covered under Component 1 (US$84 million); and (ii) Fund's monitoring and evaluation (M&E) activities as well as audits of the project accounts and certain administrative costs under the Component 2 (US$1 million). Fund resources will be used to finance manufacturing companies. Administrative/management costs of the program implementation would be mainly borne by MOITS and implementing partners as contributions to support the Fund. The Fund will also be open for donor contributions. Fund's administration costs are expected to be higher than US$1 million (amount allocated to Component 2), and additional costs of around US$3-4 million would be expected to fulfill institutional requirements by implementing partners. Donor support is expected to cover part of this requirement.

Climate co-benefit considerations in the Fund's programs

61. **Industry upgrading program and Export development program (US$26 million in total for both) and Outcome-based incentives program (US$56 million) incorporate the following climate change mitigation eligible activities:** (a) Energy efficiency: brownfield industrial energy-efficiency improvement. Net greenhouse gas (GHG) emissions are reduced through energy savings, decreased carbon intensity, decreased use of virgin materials or decreased waste generation; (b) Resource demand management: improvements to existing industrial processes, new processes, or advanced manufacturing technology solutions, leading to a reduction in consumption or a reduction in waste of non-energy resources through changes in processes or process inputs; (c) Energy and resource use efficiency and passive energy- and water- efficient design meant to minimize the use of energy and water; (d) Renewable energy generation; (e) Support for low-carbon development: support production of components, equipment or infrastructure dedicated exclusively to utilization in the renewable energy, energy efficiency improvement, or other low-carbon technologies; and (f) Greenfield supplementary equipment or production lines at existing manufacturing facilities.

62. **Given the level of resource/energy use (in)efficiency of old equipment and processes and based on the assumption that modernizations will typically employ technologies and processes that are at least 15-20 percent more efficient**, modernizations and improvements to existing industrial processes supported/financed through these two subcomponents will meet the criteria for substantial GHG emissions reduction, in line with Jordan NDC goals. In addition to the strong climate change mitigation contribution of this operation, the project will also increase the adaptation of Jordan's industrial/manufacturing sector to climate change by reducing its demand for scarce water resources.

63. **Increased access to export credit insurance and new SCF products (US$2 million) intends to benefit, among others, firms that have conducted the voluntary green (and/or energy efficient) export product certification** to increase the competitiveness of Jordanian products in foreign markets. For example, but not limited to GHG reduction through biomaterial production and green certification and compliance with internationally accepted certification schemes.

C. Project Beneficiaries

64. **The following are the main groups of project beneficiaries:** (a) Export-ready manufacturing companies, and growing manufacturing companies who need to increase their export readiness, aim to access new markets, scale-up in existing ones, and/or innovate, diversify, and expand their production capacity; (b) First-time exporters who

need support in expanding their capacity, increasing product offering, accessing new markets; (c) Export-ready companies that intend to use export credit insurance to facilitate their exports; (d) Women-owned/managed manufacturing companies or manufacturing companies that employ a large share of women; (e) MOITS will benefit from the project through both of its components. A fully operational Fund with strong governance and successful programs can become an important tool for MOITS as a leading entity for industrial development in Jordan; (f) Implementing partners will expand the set of beneficiary firms receiving their support. They will also receive technical assistance with the support from co-financing of other donors to help with strengthening their staff and systems. While primary beneficiaries of this project will be manufacturing firms, the Fund's programs will also help to leverage productivity-enhancing services from the local market, including ICT, financial and accounting, business development, marketing, and others.

65. **Citizen Engagement.** The project is designed and will be implemented through active consultations with beneficiaries, key stakeholders, the private sector, industry firms, and active donors. A series of open consultations both at an early stage and during implementation will provide information and raise awareness about the planned project activities, and the active engagement of beneficiaries throughout the project cycle. These dialogue formats will be organized and led by an experienced facilitator and enable the project to capture feedback, concerns, and requirements that will help the implementation process. The content and results will be summarized in a report and made available to beneficiaries and the public through publication on the project website, an email distribution list for participants, and links on social media channels. A multi-stakeholder forum will be established for oversight and to ensure that the project has high transparency standards and guarantees transparent and unbiased eligibility criteria, assessment, and selection procedures. The forum will meet regularly and hold seats for 50 percent women. The project will assess vulnerable groups among beneficiaries and design citizen engagement activities, especially consultations and the multi-stakeholder forum, in a manner that promotes inclusivity and guarantees the possibility to participation for marginalized groups.

66. **Annually conducted surveys will measure beneficiaries' satisfaction with the project's implementation progress and participatory approach.** Surveys will capture feedback at different stages of the applicant/beneficiary firms in their 'journey' of the Fund's programs, e.g., application, contracting, implementation, etc. The feedback obtained will be used to inform potential changes or adjustments to the project design and/or delivery mechanisms during the life cycle of the project. Results will be disaggregated by gender. A beneficiary feedback indicator related to the surveys is included in the results framework.

67. **A grievance redress and beneficiary feedback mechanism will be set up under the project** to give beneficiaries and stakeholders the opportunity to file complaints and provide multiple channels for feedback. These include: a toll-free phone number, phone and fax of the local project office, email, letter, complaint form online and offline, conversation and meeting, project website, and social media such as Facebook. All complaints received and their resolution will be registered online and their responses will be tracked. An agreed timeframe, in which complaints, questions, and other forms of feedback shall be addressed, will be made publicly available to make sure that the feedback loop is closed and beneficiaries and stakeholders know what will be done about the provided input.

D. Results Chain

68. **The results framework of the project is built on the following results indicators** (Table 2). A necessary pre-condition for successfully launching and implementing Fund's programs is the development of the Fund's operational capacity and ensuring that a robust governance framework and regular monitoring mechanism is in place; adequate staffing, adopted instructions, etc., and this will be tracked through a separate PDO-level indicator. There are three PDO-level indicators: (i) increase in private investment by beneficiary firms of the project; (ii) increase in annual export values by beneficiary firms of the project; and (iii) beneficiary firms receive financial and

advisory support through the Fund's programs. As firm-level export growth can be affected by many external factors, the achievement of this indicator will be measured against the average annual export growth rates for several years in the past, aiming to measure the project's impact, isolating it from other external factors as much as possible.

69. **Private capital mobilization (PCM) is one of the objectives of the project, and the Fund's programs will monitor the amount of PCM.** It will be tracked through one of the project's PDO-level results indicators, with a target of US$17 million in PCM over the project's lifetime.[21] This mainly corresponds to the investment that is co-financed by the private sector during the implementation of the matching grants programs (Industry upgrading and Export development). There are also indirect channels for this project to generate additional private sector investment. For example, some project beneficiary firms will modernize their production and implement climate-smart solutions, increasing demand for manufacturing machinery and technologies, which can increase investment by their producers. The SCF platform would stimulate PCM in several ways, e.g., through financial institutions by increasing their financing to manufacturing firms. However, the mentioned channels cannot be reasonably quantified at this stage.

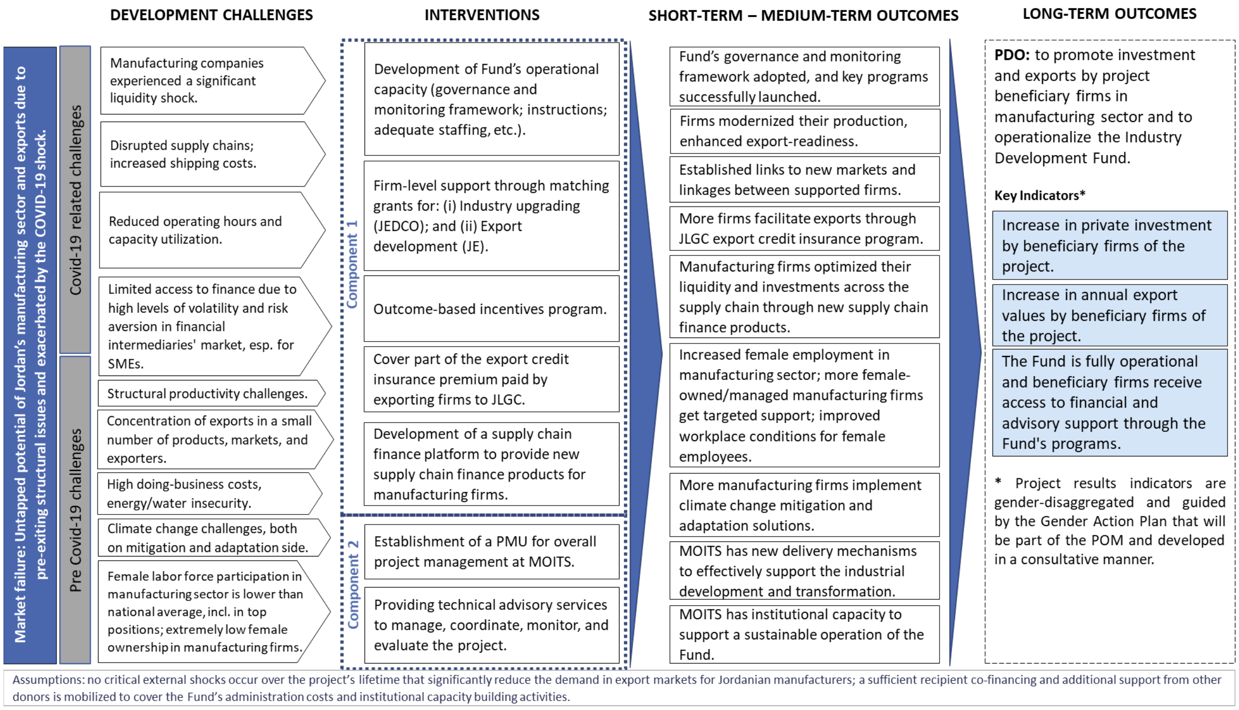
70. **Gender outcomes are also central to the project design and will be tracked through several indicators.** Women lag behind men in all key economic opportunities indicators in Jordan – with extremely low female laborforce participation and high unemployment rates and low levels of entrepreneurship and access to finance. The COVID-19 pandemic has hit women particularly hard with the combination of fewer jobs and increased caregiving responsibilities pushing women out of the labor market for a sustained period. This project identifies the need to lay the foundations for a stronger and more inclusive SME support ecosystem, with specific targets for female-owned and female-led firms integrated into Fund's programs, including increased female employment in beneficiary firms; target number of beneficiary female-owned/managed firms; etc. A series of actions will be taken to achieve this, some of which were explained above and others that will be detailed in the Gender Action Plan of the POM.

Table 2. Project result indicators.

#	Indicator	PDO / Intermediate indicator
1.	Increase in private investment by beneficiary firms of the project.	PDO
2.	Increase in export values by beneficiary firms of the project.	PDO
3.	The Fund is fully operational and beneficiary firms receive access to financial and advisory support through the Fund's programs.	PDO
3.	Firms that benefited from export credit insurance through project support.	Intermediate
4.	Increased female employment in firms that participate in the outcome-based incentives program.	Intermediate
5.	Firms that received support through Industry upgrading and export development programs.	Intermediate
6.	Firms that received support through the outcome-based incentives program.	Intermediate
7.	Firms that improved water/electricity/waste management efficiency through the implementation of climate-smart solutions supported by the project.	Intermediate
8.	Satisfaction of beneficiary firms with the implementation of the project, including its participatory approach and activities.	Intermediate

[21] The PCM target was calculated assuming that, on average, the co-financing from beneficiary firms will be 40 percent. The target may be reevaluated as the POM is finalized and during implementation when there is more clarity on the pipeline of the projects.

71. These results are derived from the theory of change for the project, which is presented below:



E. Rationale for Bank Involvement and Role of Partners

72. **Expanding exports, increasing investment by manufacturing firms, and diversifying export markets are critical conditions for sustainable growth of the Jordanian economy in the medium and longer-term, as well as for effective recovery from the pandemic.** This is one of the top recommendations in Jordan's Systematic Country Diagnostic and CPSD, and the same objective was highlighted in analytic work and projects undertaken by development partners including the ILO, the European Union, and United Nations Industrial Development Organization (UNIDO). Enhancing Jordan's exports is also one of the GOJ's policy priorities. Industry has been affected by the COVID-19, leading to significantly reduced liquidity. Making institutional interventions to limit the impact of COVID-19 and develop a robust foundation for sustainable growth in exports is vital and timely. Given the COVID-19 impact, the lack of sustainable private sector financing, as well as structural issues linked to export concentration and growth, there is a dire need for public sector investment.

73. **The WBG's multi-sectoral engagement in Jordan allows to create synergies and achieve better positive outcomes.** The WBG is a trusted partner with the Jordanian private sector, financial sector, and the GOJ, while also maintaining a convening influence with regional counterparts and stakeholders. This project has benefited from WBG global experience and knowledge and special considerations reflecting the country and sector context, including experience in engagements in enterprise support, export facilitation, designing and implementing matching grant programs, private sector development programs, and other relevant areas. The WBG will leverage its experience in climate-related issues in the private sector, which the market may not address on its own, and will also leverage its experience in addressing gender gaps, leveraging engagement and knowledge products from the Mashreq Gender Facility. The WBG has substantial experience with projects aimed at supporting the funds like the Industry Development Fund.

74. **This Project has complementarities with other WBG support to Jordan's private sector development, as discussed above (Figure 6), and the integrated support so manufacturing firms will help to create a transformational development impact in Jordan's industry** and to address the existing structural issues linked to export concentration; production modernization; export growth, etc. The project will also complement the ongoing activities of other development partners (USAID, GIZ, UNIDO, etc.). For example, UNIDO project 'LevelUP' supports inclusive and sustainable industrial development in accordance with the Jordan 2025 Economic Development Plan.

F. Lessons Learned and Reflected in the Project Design

75. **This project has benefited from the WBG global experience and knowledge and special considerations reflecting the country and sector context.** The following are selected lessons when it comes to well-performing National Development Financial Institutions (NDFIs), which can be relevant for the Industry Development Fund:[22]

(a) Identify the unmet needs and factors preventing private sector involvement and consider all public policy interventions available, beyond the provision of public sector funding, to address the problem.

(b) Design NDFI facilities focused on servicing credit-constrained borrowers to ensure additionality.

(c) Use preferential lending sparingly when large externalities can be justified. NDFIs need to ensure that when subsidies are necessary, they are channeled in a transparent and non-distortionary way.

(d) Ensure that the institution is effectively managed, and the incentives of management and staff are aligned with the objectives of the institution through effective corporate governance, risk management, and mechanisms to evaluate the performance of NDFIs.

76. **The project will also assist the Fund in developing and implementing its main programs.** WBG assessment of global experiences in matching grant programs provides several lessons, including: (a) Minimize the risk of political capture interferences by having broad stakeholder engagement, transparent communication, and involvement of the private sector in the grant allocation process; (b) Streamline application and disbursement procedures for grants and technical assistance to avoid discouraging beneficiaries from applying or imposing excessive administrative burden; (c) Increase uptake of matching-grants by SMEs through marketing and communication campaigns with clear and accessible messaging; (d) Award matching grants on objective and transparent criteria; and (e) Instate robust M&E system from the beginning.

III. IMPLEMENTATION ARRANGEMENTS

A. Institutional and Implementation Arrangements

77. **MOITS will be the implementing agency for the project**. The FMU at MOITS will perform the role of the project management unit (PMU). The FMU will have the overall fiduciary responsibility for project implementation and ensure activities are executed in accordance with the POM. The FMU will have the overall responsibility for the M&E of project activities, as well as designing and implementing outreach activities, e.g., specifically targeting women. The project will include climate-sensitive elements and measures to benefit all vulnerable groups and enhance the gender balance.

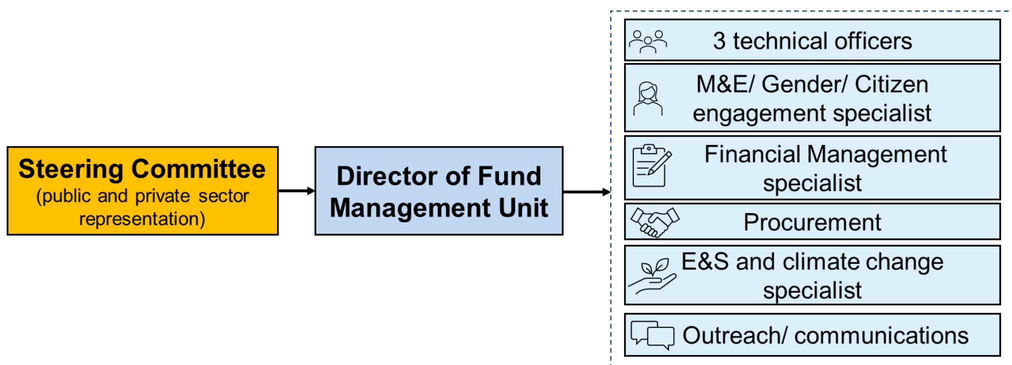
78. **MOITS does not have experience in implementing WBG investment projects, and their capacity for the implementation of this project will have to be strengthened**. The existing MOITS knowledge and experience from

[22] *https://openknowledge.worldbank.org/bitstream/handle/10986/36467/National-Development-Financial-Institutions-Trends-Crisis-Response-Activities-and-Lessons-Learned.pdf?sequence=1&isAllowed=y*

engagement in previous WBG projects and related fiduciary and other responsibilities (e.g., MOITS is one of the implementing entities in the 'Economic Opportunities for Jordanians and Syrian Refugees Program for Results', P159522) will be leveraged for successful preparation and implementation of this project.

79. **The Fund will have a separate Steering Committee consisting of public/private sector representatives, to ensure strong management, robust governance, and sustainable operations of the Fund** (Figure 8). The FMU will submit periodic progress reports to the Steering Committee and will provide technical and administrative assistance to the Steering Committee to carry out its tasks and any other matters assigned to it by the Steering Committee. The Committee will define the strategy of the Fund, decide on its main programs and budget allocations. The criteria for beneficiaries under each program will be reflected in standard operating procedures (SOPs) or operational manuals for each program. These criteria will be publicly available and will be used in the selection process. The Fund will be subject to the oversight of the Audit Bureau or other independent audit company.

Figure 8. Fund's organizational structure.



Some of these positions can be assigned to MOITS internal staff

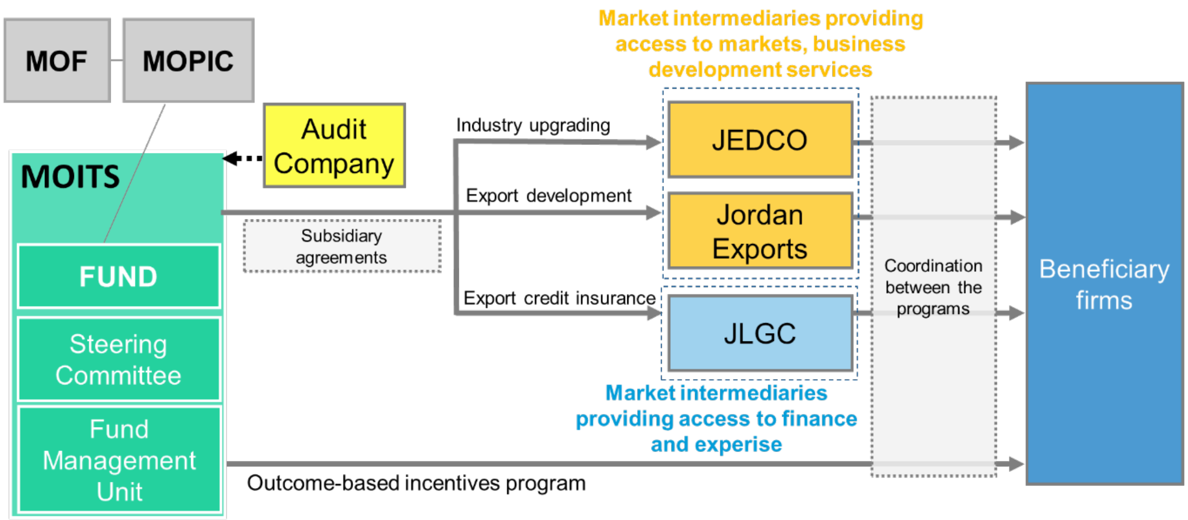
80. **Fund's Steering Committee will sign subsidiary agreements with partners that will implement the Fund's programs:**

(a) JLGC has experience with WBG lending projects and is familiar with relevant procedures and responsibilities as it is an implementing agency of the World Bank 'Innovative Startups Fund Project'. JLGC will continue providing export credit insurance under the existing program and will apply its standard risk management procedures in assessing and selecting firms. The agreement between the Fund and JLGC will entail key eligibility criteria for beneficiary firms that can receive Fund's support for the export credit insurance premium (focus on SMEs, etc.).

(b) For Industry upgrading and Export development programs, the role of implementing partners will include: collecting applications; conducting a pre-assessment and screening of applicant firms to confirm their eligibility; assessing and selecting companies; enabling technical support and coaching services; updating beneficiary information and records on the Fund's Client Relationship Management (CRM) system; ensuring procurement is carried out by beneficiary firms in accordance with the procedures outlined in the POM; disbursing grants based on the signed agreements with beneficiary firms and on the evidence of eligible expenditures and/or achieved milestones; and reporting back on results for the Fund.

81. **The Fund will transfer a 15 percent advance of the allocated funds upon signing subsidiary agreements with each implementing partner.** Further transfers will be made in tranches linked to the signed agreements between each partner and beneficiary firms. Project diagram reflecting key implementation arrangements is provided in Figure 9.

Figure 9. Project implementation arrangements diagram.



B. Results Monitoring and Evaluation Arrangements

82. **The FMU will have a dedicated M&E specialist.** The project will support the FMU's M&E specialist to develop and implement the M&E framework and build the capacity of FMU staff to undertake the activities related to the M&E of project results. This will include support for setting up an M&E system and establishing a comprehensive CRM system (M&E dashboard), as well as relevant staff training on different aspects of M&E, such as ensuring sex-disaggregated M&E. FMU in collaboration with their implementing partners will also use surveys to obtain qualitative and quantitative feedback from end beneficiaries, in different stages of the process, incl. application, contracting, implementation, etc.

83. **The FMU will solicit results from implementing partners through the CRM system and will prepare quarterly, semi-annual, and annual reports to track progress made on the project implementation plan and Results Framework.** The project monitoring reports will contain, at a minimum, summary data on overall performance against project targets, implementation challenges experienced, and feedback received from project beneficiaries.

84. **The World Bank will review and discuss progress monitoring reports submitted by the FMU during semi-annual implementation support missions.** The World Bank will discuss the progress and deviations with the FMU to identify any areas where additional help from the World Bank is needed. The FMU and the World Bank will also use results data to build awareness of project results among key beneficiaries and counterparts.

C. Sustainability

85. **The activities under Component 1 of the project will support firm/business level sustainability by supporting industry upgrades, strengthening firms' export readiness, and increasing growth and investment potential.** Manufacturing firms supported through this project can modernize their production processes; increase production capacity; diversify, expand, and innovate product offerings; receive quality certification; access new markets and expand in existing ones; increase climate change resilience and implement climate change mitigation solutions. All this will help build resilience for Jordanian manufacturing firms and make them more adaptable and versatile to withstand potential future shocks, adding to the sustainability of project support and positive

development impact lasting beyond the project lifetime.

86. **The Fund itself is not envisaged as a self-sustainable (revolving) institution, but rather as a vehicle to grant state support to the private sector.** The Fund can be used to channel the targeted support to the industrial sector, including the activities linked to the implementation of Jordan's Export Strategy and other industry development priorities. Component 2 of the Project will contribute to institutional capacity building and operational sustainability of the Fund, including by integrating the lessons learned from other similar development funds around the globe and by ensuring that a robust governance framework and regular monitoring mechanism are in place.

IV. PROJECT APPRAISAL SUMMARY

A. Technical, Economic and Financial Analysis

87. **The project is evaluated through Cost-Benefit Analysis (CBA), which yields a predicted rate of return**.[23] The expected effects of matching grants and business support through the main programs in Component 1 (excluding activities related to the credit insurance[24]) are a shift toward more efficient use of capital (increasing its utilization), capitalization of labor, and an associated increase in labor productivity. This leads to an increase in the value-added contribution of the supported manufacturing firms and economy-wide effects through value chain linkages. Thus, the benefits quantified in the analysis are the total value-added growth triggered by the firm investments. The additional value-added calculation is made by assuming a rise in labor productivity, multiplying it by an (assumed to remain unchanged) labor input, and applying an output multiplier.[25] Costs accounted for include both the project budget and matched contributions by the firms. Given the lack of evidence regarding the increase in productivity from project support of this sort, we conduct the estimation with three scenarios, which vary by sub-component[26].

88. **Applying these and further CBA assumptions[27] yields expected rates of return of 16 percent in the middle scenario, with 24 percent and 8 percent for the high and low scenario, respectively** (Table 3). These are lower-bound estimates since some potentially important benefits could not be quantified[28]. Results are disaggregated to (i) the industry upgrading and export development programs; and (ii) the outcome-based incentive program, also shown in Table 3. The project return estimates suggest an acceptable outcome in relation to the resources spent. The public sector involvement in economic activities as proposed are also warranted by the market failures that lead to the private sector producing sub-optimal development outcomes. These are related to asymmetries of information in the credit market that lead to credit rationing of firms and financial institutions with insufficient reserves to meet the credit market demand. Moreover, as pointed out in studies of similar business support

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[23] The rate of return is defined as the rate that sets the project's net present financial value to zero.
[24] Although not able to quantify due to lack of empirical evidence, it is expected to increase access to finance, reduce supply chain costs, increase working capital, and thereby generate additional value-added.
[25] The median SME firm size for manufacturing is 20 based on the 2019 WBG Enterprise Survey. The multiplier is based on the 2016 I/O Table and Inverse Leontief Matrix from the Jordan DOS.
[26] Different scenarios for the increase in productivity are 5% , 7.5%, 10% for Industry upgrading and export development programs and 7.5%, 10%, and 12.5% for the outcome-based incentives program. The difference is due to the average financing received by firm being greater for the latter activities.
[27] They include a 20 year time horizon, a decay rate of 10%, that project expenditures are made over 3 years in equal amounts, that benefits are realized after a year, and that the matching amount is 60%.
[28] These include benefits from activities related to the credit insurance and energy savings. There will also likely be indirect job creation which, given the high Jordanian unemployment rate, generate benefits in the form of jobs externalities. These include the positive social effects (such as increased social cohesion) associated with lower unemployment and higher household income.

programs, there are transaction costs for firms finding the right types of support.

Table 3. Cost-benefit analysis main results for three scenarios

	Rate of return (%)	Total financing raised (USD millions)
Project total	8 (low), 16 (middle), 24 (high)	116
Industry upgrading and export dev. programs	9 (low), 19 (middle), 29 (high)	58
Outcome-based incentives program	8 (low), 14 (middle), 20 (high)	57

B. Fiduciary

(i) Financial Management

89. **The World Bank updated the assessment of the MOITS that was conducted for the Economic Opportunities for Jordanians and Syrian Refugees PforR and conducted financial management (FM) assessments for JEDCO and JE's FM systems.** The assessments concluded that with the implementation of agreed-upon actions, the proposed FM arrangements would satisfy the minimum requirements under paragraph 12 of the Bank Policy on investment project financing (IPF).

90. **Implementation Arrangements and Staffing**: MOITS will manage the overall FM and disbursement functions of the project, while JEDCO and JE will handle the FM and disbursement functions related to Industry upgrading and Export development programs. MOITS has prior experience implementing World Bank PforR operations but lacks the knowledge and expertise with FM and disbursement guidelines for IPF operations. JEDCO and JE have no prior experience in managing World Bank projects.

91. **A qualified part-time Financial Officer (FO) with adequate experience in the World Bank IPF FM and disbursement guidelines will be assigned no later than 120 days after loan effectiveness as part of the FMU.** The FO's Terms of Reference will be developed by MOITS and cleared by the World Bank team. The part-time FO will coordinate with MOITS Finance Department. JEDCO will rely on its finance team to manage the project's FM and disbursement functions, while FM JE capacity is limited because only one person handles the FM function. Therefore, a full-time FO will be recruited to support the JE finance manager no later than 90 days after effectiveness.

92. **Project FM risk:** The overall FM risk is "Substantial" based on the updated FM assessment. The project will have acceptable FM arrangements with mitigation measures in place, and the residual risk will be "Moderate." The FM risks include the following:

(a) Limited experience of implementing agencies in implementing World Bank IPF operations.

(b) JE's existing accounting system has limitations in capturing financial transactions and generating regular financial reports as per the World Bank guidelines.

(c) JE has limited FM capacity due to having only one FM staff who handles all financial aspects.

(d) JE does not have adequate internal controls and procedures, and there is no internal audit function.

(e) The Financial Incentives (provided under the outcome-based support program), and the matching grants (provided under the performance support program) are provided to ineligible beneficiaries or not utilized for the intended purposes.

(f) Export credit insurance support is provided to ineligible beneficiary firms.

93. **The FM arrangements were designed to mitigate the identified FM risks, including:**

(a) A part-time FO, experienced in the World Bank IPF operations and related FM and disbursement guidelines, will be assigned, as part of the FMU, and a full-time FO will be hired to support JE's Finance Manager.

(b) The matching grant agreements, provided under the industry upgrading and export development program, will have clear deliverables and payment conditions to be signed by beneficiary firms. The matching grants will have a specific ceiling. In addition, while the same firm can apply to Fund's programs multiple times, there will be a ceiling for the support that one firm can get over one 'program cycle', which is 24 months.

(c) The implementation of the industry upgrading and export development programs will be outsourced to implementing partners namely JEDCO and JE. They will verify the evidence of payment paid by beneficiary firms for their share of expenses before compensation.

(d) Project reimbursements will be credited to the Ministry of Finance Treasury account.

(e) For the incentive payments provided under the outcome-based support program, MOITS will hire a TVA (and, in later stages, dedicate qualified in-house experts) to evaluate the performance of the enrolled companies at the end of the year to confirm the achievement of pre-agreed KPIs. The TVA (experts) will also verify the eligibility of companies that achieve or exceed their pre-set firm-level targets.

(f) Acceptable internal controls and procedures for JE will be developed within 90 days after effectiveness.

(g) A qualified internal auditor will be hired by JE within 90 days after effectiveness.

(h) Details of services and eligibility criteria for industry upgrading and export programs will be developed during implementation and will be included in the POM.

(i) A POM will be developed, including the rules, guidelines, standard documents, and procedures for carrying out the Project. The POM will consist of a designated chapter on FM and disbursement functions.

(j) Semiannual IFRs will be submitted to the World Bank in excel sheets.

(k) The project's financial statements will be annually audited by an independent auditor acceptable to the World Bank. The auditor's scope of work will be expanded to grants and incentives provided under the "industry upgrading and export development programs".

94. **Budgeting:** Project cash flows for the first year are included in the Ministry of Finance budget for 2022. MOITS and JEDCO's budgets are included in the national budget law. MOITS will maintain a detailed disbursement plan per quarter to monitor the project's financial progress closely. This plan will be developed based on the initial procurement plan, approved business plans, and the schedule of outputs defined in the implementation schedule and estimated payments cycles – revised upon need. It will be used as a monitoring tool to analyze budget variances, manage cash, and feed into the semiannual interim financial reports (IFRs).

95. **Accounting and Financial Reporting**: The project will follow the cash basis of accounting. Key accounting policies and procedures will be documented in the FM chapter in the POM. MOITS and JEDCO use Government Financial Management Information System (GFMIS) for budget preparation and execution, which will be used by the project. The GFMIS provides information on how the annual Budget Law and its execution support the Government's strategic priorities. Considering the nature of activities financed by the project and loan proceeds will be disbursed using the reimbursement method, simple excel sheets will capture the financial transactions and generate the semiannual IFRs.

96. **JE uses an unacceptable accounting system** that is not capable of properly capturing the project's financial transactions and generating the required financial reports. Therefore, an accounting system will be installed 90

days after effectiveness.

97. **Project financial reporting includes Semiannual IFRs and yearly Project Financial Statements (PFS). The FMU will be responsible for collecting the financial data from JEDCO and JE and submitting the IFRs and PFS, consisting of:**

(a) a Statement of Cash Receipts and Payments by category.

(b) accounting policies and explanatory notes including a footnote disclosure on schedules: (i) "the list of all signed Contracts per category" showing Contract amounts committed, paid, and unpaid under each contract, (ii) a Reconciliation Statement for the designated account, (iii) a Statement of Cash payments made using Statements of Expenditures (SOE), (iv) a budget analysis statement indicating forecasts and discrepancies relative to the actual budget, and (v) a comprehensive list of signed contracts.

98. **The Project semiannual IFRs will be submitted to the Bank within 45 days of the end of each semester.** The PFS should be produced annually. The PFS should include the same information as the IFRs on an annual basis and will need to be produced within three months after the end of each fiscal year and readily available for the audit.

99. **Internal controls:** Project's expenditure cycle will follow the controls specified in the GOJ's Financial By-law (1994) and its Amendment (2015) and the Financial Control By-law (2011), and its Amendment (2015) except for JE. They include: (i) technical approval of the department involved; (ii) checking and approval by finance staff; (iii) verification of the accuracy of the payments and its compliance with the applicable laws in Jordan and the World Bank procurement and FM procedures as well as the Loan terms and conditions. Although the project will follow the Government-applied controls set in the local laws, there will be supplementary controls in place for monitoring project activities, including the verification and approval of the FMU (financial and technical). A POM will be developed that includes a financial management chapter, which will document the project's implementation of internal control functions and processes and describe the roles and responsibilities of the project staff and finance department, summarized in terms of authorization and execution processes. The chapter will also clearly define the fiduciary duties on related financial procedures and controls to be set in place and the required financial reporting obligations.

100. **JE, on the other hand, follows its own internal controls framework consisting of the internal bylaw of 2021**, procurement policy, financial policies and procedures, and human resources. JE's internal controls framework is assessed to be ineffective considering that comprehensive policies and procedures over JE's operations do not exist. Furthermore, there is no internal audit function that exists at JE. Therefore, comprehensive internal controls and procedures will be developed, and a qualified Internal Auditor will be hired within 90 days after effectiveness. The Internal Auditor will be required to develop an internal audit charter for JE, internal audit methodology and manual based on risk, guidance notes on annual internal audit plans, internal audit documentation, and testing.

101. **External Audit**. An independent auditor acceptable to the World Bank, financed by the loan, will be hired to audit project financial statements following international auditing standards. The FMU will submit the audit report and management letter to the World Bank within six months after the audit period. The FMU will prepare the Terms of Reference for the auditor and submit them to the World Bank for clearance. The auditor will also be requested to provide an opinion on the project's effectiveness of the internal control system. The Auditor's scope of work will be expanded to cover the grants and incentives provided under the industrial upgrading and exports development programs to confirm the eligibility of expenses as per the eligibility criteria. On the other hand, JEDCO and JE will hire auditors that are acceptable to the World Bank in accordance with Terms of Reference acceptable to the World Bank.

102. **Disbursements.** The loan proceeds will be disbursed following the World Bank's disbursements guidelines, as outlined in the disbursement and financial information letter. The project will follow "Transaction-Based

Disbursements" for project components with disbursements reimbursed to the Government/Ministry of Finance Treasury Account. Requests for payments from the Loan will be initiated through the use of withdrawal applications. The documentation supporting expenditures will be retained at the FMU and readily accessible for review by the external auditors and World Bank implementation support missions. All disbursements will be subject to the conditions of the Loan Agreement and disbursement procedures as defined in the disbursement and financial information letter.

(ii) Procurement

103. **Procurement under the project will be carried out in accordance with the World Bank's Procurement Regulations for IPF Borrowers for Goods, Works, Non-Consulting and Consulting Services, dated November 2020** ('Procurement Regulations'). The Procurement Regulations will not apply to the financing of export insurance premiums. The project will be subject to the World Bank's "Guidelines on Preventing and Combating Fraud and Corruption in projects Financed by IBRD Loans and IDA Credits and Grants", October 15, 2006, revised in January 2011, and as of July 1, 2016. The project will use the Systematic Tracking of Exchanges in Procurement to plan, record, and track procurement transactions.

104. **Selection of Beneficiary Firms:** MOITS/the Fund will sign subsidiary agreements with JEDCO, JE, and JLGC to implement and administer the industry upgrading and export development programs and export credit insurance program, while the outcome-based incentives program will be administered by the Fund. The subsidiary agreements will require JEDCO, JE, and JLGC to comply with the World Bank Anti-Corruption Guidelines. Interested firms will be publicly invited to submit their applications for the industry upgrading, export development, and outcome-based incentive programs. For the industry upgrading and export development programs, screening and initial selection of firms will be undertaken by JEDCO and JE based on well-established eligibility criteria. Each implementing entity will have its own selection committee, including private sector representatives. For the outcome-based incentive program, MOITS/the Fund will select the beneficiary firms in accordance with the defined eligibility criteria and will sign grant agreements with selected firms. The selection of beneficiaries for the export credit insurance program will be conducted by JLGC following its standard procedures and the eligibility criteria to be agreed with the Fund.

105. **The Project will finance the procurement of goods, consultants' services, non-consulting services and ICT necessary for the implementation of the beneficiary firms' upgrading and modernization** and/or export expansion plans under the industry upgrading and export development programs, and the achievement of the target outcomes under the outcome-based incentives program. Due to their demand-driven nature, the specific packages may not be defined upfront. There will be no procurement under the export credit insurance program. Under Component 2 and for the development of the national SCF platform, the Project will finance a few procurement activities of goods and consultants' services, including TVA (and, in later stages, qualified in-house experts) for the verification purposes of outcome-based incentive program, financial and technical audits, as well as market assessments, legal services and procurement of software and hardware necessary for the development of national SCF platform.

106. **MOITS/the Fund will hold the overall responsibility for procurement under the Project,** including undertaking procurement and contract management for Component 2, and for activities related to the development of the national SCF platform. Per the subsidiary agreements, JEDCO and JE will be responsible for ensuring compliance with the World Bank Procurement Regulations by providing oversight over procurement to be carried out by beneficiary firms under the industry upgrading and export development programs, while MOITS/the Fund, through the FMU, will provide such oversight for the outcome-based incentives program. Beneficiary firms under the industry upgrading and export development programs and under outcome-based incentives program will be

responsible for procuring goods and services required for their industry upgrading and modernization, export expansion plans, and for the achievement of the target outcomes for the outcome-based incentive program, as per the signed grant agreements. Procurement by the beneficiary firms will follow Commercial Practices, in accordance with para 6.46 of the Procurement Regulations. The guiding principles and private sector procurement procedures acceptable to the World Bank shall be outlined in the POM. These principles shall, inter alia, include:

(a) Compliance with the World Bank eligibility requirements in accordance with para 3.21-3.24 of the Procurement Regulations.
(b) Avoiding situations of conflict of interest, in accordance with para 3.14-3.17 of the Procurement Regulations, in the award of contracts (e.g., hiring of affiliated companies or companies owned by family members).
(c) Compliance with the World Bank Anti-Corruption Guidelines in the procurement process and during contract execution.
(d) Agreement by the firms to the supervision and oversight by JEDCO, JE, and MOITS FMU over the procurement process to ensure compliance with the accepted private sector procurement practices and procedures.
(e) MOITS/the Fund shall satisfy itself with the reasonableness of the price of contracts awarded, through the hiring of independent auditors, based on terms of reference acceptable to the World Bank; and
(f) Maintaining all relevant records for the World Bank's post review and audits, when requested.

107. **A procurement risk and capacity assessment was carried out by the World Bank.** It concluded that the enactment of the public procurement bylaw has brought significant improvement to the legal and institutional framework as well as to procedural aspects for public procurement; however, several of the implementation tools are under development (e.g., standard procurement documents for different types of procurement, procurement planning template, and associated training). MOITS has limited procurement capacity, and it does not have experience in implementing projects following World Bank Procurement Regulations. Its capacity in overseeing procurement by beneficiary firms under the outcome-based incentives program would require strengthening. JEDCO and JE staff have experience implementing similar matching grants, however, their institutional capacity to provide procurement oversight requires strengthening. Manufacturing firms targeted by the industry upgrading and export development programs and by outcome-based incentives program are SMEs that may not have well-established procurement systems and procedures. Local suppliers and consultants have the capacity and capability to deliver the Project requirements, however it is likely that some of the needs of the beneficiary firms under the industry upgrading and export development programs and outcome-based incentives program would require approaching the international market. To mitigate the procurement risks, the following measures shall be put in place:

(a) MOITS/the Fund will include a qualified procurement specialist to be responsible for day-to-day handling of procurement and contract management under Component 2 and for activities related to the development of SCF platform and to provide procurement oversight to beneficiary firms under the outcome-based incentives program.
(b) The World Bank team will provide close implementation support to designated MOITS/the Fund staff during the initial stages of implementation. All Terms of Reference will be subject to the World Bank's prior technical review and clearance.
(c) The guiding principles and procurement procedures for the industry upgrading and export development programs and for outcome-based incentives program to be followed by beneficiary firms, and oversight by the FMU, JEDCO, and JE over procurement decisions shall be developed and outlined in the POM.
(d) JEDCO and JE will include qualified procurement staff to provide procurement oversight to beneficiary firms under the industry upgrading and export development programs.

(e) Beneficiary firms will receive procurement training by designated staff of the FMU, JEDCO, and JE and on the procurement procedures for the industry upgrading, export development, and outcome-based incentives programs.

(f) Technical audits will be commissioned by MOITS/the Fund to ensure that goods and services that are delivered to beneficiary firms under the industry upgrading, export development, and outcome-based incentives programs comply with the signed contracts.

108. **Procurement risk is rated Substantial**. The World Bank prior review thresholds for substantial risk rating projects shall apply to the project. The envisaged procurement packages are small, therefore, it is expected that no contract will be subject to the Bank's prior review. The Bank will carry out one ex-post procurement review per year that would cover at least 15 percent of the contracts awarded during the review period.

109. **Given the demand-driven nature of procurement envisaged under the industry upgrading, export development, and outcome-based incentives programs and the limited procurement envisaged under Component 2**, **and activities related to the development of SCF platform**, MOITS prepared a simple project procurement strategy for development (PPSD). The PPSD and the Procurement Plan for the first 18 months of the Project were finalized during appraisal and approved by the Bank.

C. Legal Operational Policies

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

D. Environmental and Social

110. **The environmental risk rating of the project is substantial.** The project interventions will bring many environmental benefits in reducing emissions at the level of industry firms through implementing climate-smart solutions for minimizing energy, water, and raw material use. The operations of manufacturing SMEs would be associated with different levels of risk according to the sector, scale, technology, and environmental control measures in place. The environmental risks are related to the generation of air emissions, industrial wastewaters with different types of pollutants (organic and chemical) handling of chemicals and hazardous wastes, overconsumption of resources (water energy and raw materials), potential additional use of packaging materials that may be required for exporting and occupational health and safety (OHS) aspects. The sectors that are likely to be supported will include chemical industries and textiles, which are among the top exporters, and the fertilizers and metals which are among the sectors with high export potential according to an ILO study titled "More Trade for More Jobs. Identifying the Employment Potential of Jordan's Exports". Such sectors are usually associated with considerable inherent environmental risks, however, the expected scale of individual subprojects is relatively limited and many of the interventions would lead to improving resource efficiency and reduced emissions so it is unlikely for a single firm to cause wide range or irreversible or unprecedented environmental impacts.

111. **In terms of technology, it is expected that industrial plants receiving project support will improve their processes to utilize modern technologies that typically adopt pollution prevention measures.** In terms of

capacity, the capacity of the implementing agency is low; the capacity of individual industrial plants in controlling pollution varies, however, the project, led by the FMU, will build the capacity of beneficiary firms as needed. The above risks, and related impacts, are expected to be temporary, predictable, with limited spatial extent, and could be reversed/compensated through readily available technologies. There is a moderate/low probability of serious adverse effects on the environment and/or human health as typically beneficiary industries are located away from environmentally sensitive areas and OHS risks could be managed through OHS systems managed by locally available expertise. All above risks are linked to matching grants, outcome-based incentives, and JLGC export credit insurance (all under Component 1), which may include upgrading production lines, introducing new lines, procuring new equipment, and some limited civil works that may be needed for the previous intervention**.**

112. **The social risk rating is moderate.** The Project is expected to bring positive socio-economic impacts by targeting manufacturing firms affected by the high costs of doing business, the pandemic, and climate change. Specifically, the project will support the resilience and recovery of existing manufacturing firms by providing matching grants for technology or production upgrades, and outcome-based incentives that might include promoting the increase in the number of women employees. The sectors that are likely to be supported will include chemical industries and textiles, fertilizers, and metals. The project will not involve direct adverse social impacts related to land acquisition or major civil works, and land acquisition will be an exclusion criterion for beneficiary firm proposals for matching grants. The main social risk is related to ensuring equal access to project benefits for firms applying for matching grants or export credit insurance, which would need to be mitigated through high transparency in eligibility criteria, selection processes, adequate outreach, and consultation mechanisms. In addition, there are social risks related to labor and working conditions, including terms of employment, health and safety, child and forced labor risks for workers in manufacturing and industrial settings, within beneficiary enterprises. Other social risks relate to labor and working conditions for project workers who consist of the FMU and contracted workers such as consultants.

113. **MOITS has prepared an Environmental and Social Commitment Plan (ESCP), Stakeholder Engagement Plan, and Environmental and Social Management Framework (ESMF) for the project.** For the purposes of the environmental and social framework, JLGC as a recognized financial institution providing insurance with premiums reimbursed by project funds is considered a financial intermediary under the environmental and social standards 9. Accordingly, JLGC will prepare an ESMS, which will also be cleared by the Bank and disclosed, within one month after project effectiveness, and before any reimbursement of insurance premium to JLGC. As noted previously, JEDCO and JE are not considered financial intermediaries as their activities are limited to providing technical assistance and channeling grants to beneficiary firms (grants are not considered financial intermediation), therefore, environmental and social standards 9 does not apply to these institutions. JEDCO and JE’s environmental and social requirements will be specified in the ESMF and ESCP and cascaded through their respective subsidiary agreements with the Fund. MOITS will also prepare and disclose an labor managememt plan, acceptable to the World Bank, within one month of project effectiveness.

V. GRIEVANCE REDRESS SERVICES

114. Communities and individuals who believe that they are adversely affected by a World Bank 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 Wrold Bank 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 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.

VI. KEY RISKS

115. **The Overall risk for the operation is assessed as Substantial.** The following table provides a more detailed description of each risk.

Table 4. Preliminary assessment of key risks

Risk	Rating	Explanation
Political and Governance	Substantial	Frequent cabinet turnover and changes within line ministries are a challenge to sustained policy implementation and budgets over the medium term in Jordan. The importance of preserving stability often reflects a preference for the status quo.
Macroeconomic	Moderate	While Jordan faces significant economic and social challenges following from the COVID-19 pandemic, the rate of decline in GDP in 2020 in Jordan was one of the lowest globally, with a strong performance in 2021. This is an important mitigating factor allowing the Macroeconomic risk to be rated as Moderate. However, the fiscal capacity is already limited, in addition to downside risks (including COVID-19), leading to a careful reassessment of this risk going forward.
Sector Strategies and Policies	Moderate	Enhancing Jordan's exports is one of the GOJ's policy priorities. For example, 'Increase investment and exports' is a focus pillar in the Jordan Reform Matrix. As an example of the commitment in this area, Jordan Exports was established in 2019 to promote exports in partnership with the private sector. In addition, MOITS is a leading entity for industrial development and is a chairing entity in JEDCO, and a new Jordan Export Strategy is currently being prepared.
Technical Design of Project	Moderate	The project has been designed integrating key best practice examples of establishing funds similar to the Fund; designing performance-based matching-grant programs; and others.
Institutional Capacity for Implementation and Sustainability	Substantial	MOITS does not have experience as the leading entity driving the implementation of WBG investment operations. As a result, their implementation capacity and systems will need to be further supported. The respective support will be provided under Component 2. The risk will be also mitigated through inclusion of project partners to support the implementation of the Fund's programs.
Fiduciary (Financial Management and Procurement)	Substantial	The overall FM risk is "Substantial". The project will have acceptable FM arrangements with mitigation measures in place, and the residual risk will be "Moderate." The procurement risk rating is *Substantial* taking into consideration the proposed mitigation measures. Few procurement activities will be carried out by MOITS under Component 2 and sub-Component 1.3, while procurement under sub-Components 1.1 and 1.2 will be carried out by the beneficiary firms following commercial practices, under JEDCO, JE, and MOITS/the Fund oversight. The procurement capacity of all three implementing entities requires strengthening to

		ensure compliance with accepted procurement procedures and the use of the funds for intended purposes.
Environmental and Social	Substantial	The social risk rating is moderate. The Project is expected to bring positive socio-economic impacts by targeting manufacturing firms affected by the high costs of doing business, the pandemic, and climate change. The environmental risk rating of the Project was assessed as substantial. The operation of manufacturing SMEs would be associated with different levels of risk according to the sector, scale, technology, and environmental control measures in place. The environmental risks are related to the generation of air emissions, industrial wastewaters with different types of pollutants (organic and chemical) handling of chemicals and hazardous wastes, overconsumption of resources (water energy and raw materials), and OHS aspects.
Stakeholder	Moderate	The project will be designed and implemented through active consultations with all the key stakeholders, the private sector, and active donors. MOITS has a wide outreach potential to the private sector, e.g., through JEDCO and other channels.
Other	Moderate	The continuing pandemic could depress demand for Jordan's exports.
Overall	Substantial	--

VII. RESULTS FRAMEWORK AND MONITORING

Results Framework

COUNTRY: Jordan

Jordan: Support for Industry Development Fund

Project Development Objectives(s)

To promote investments and exports by project beneficiary firms in the manufacturing sector and to operationalize the Industry Development Fund

Project Development Objective Indicators

Indicator Name	PBC	Baseline	End Target
Operationalizing the Fund.			
The Fund is fully operational and beneficiary firms receive access to financial and advisory support through the Fund's programs. (Yes/No)		No	Yes
Promoting exports by beneficiary firms.			
Increase in annual export values by beneficiary firms of the project. (Percentage)		0.00	5.00
Promoting investment by beneficiary firms.			
Increase in private investment by beneficiary firms of the project. (Amount(USD))		0.00	17,000,000.00

Intermediate Results Indicators by Components

Indicator Name	PBC	Baseline	End Target
Development of Fund's operational capacity and implementation of its main programs.			
Increased female employment in firms that participate in the outcome-based incentives program. (Percentage)		0.00	5.00
Firms that improved water/electricity/waste management efficiency through the implementation of climate-smart solutions supported by the project. (Number)		0.00	50.00
Female-owned/managed firms that improved water/electricity/waste management efficiency through the implementation of climate-smart solutions supported by the project. (Number)		0.00	5.00
Firms that received support through Industry upgrading and Export development programs. (Number)		0.00	320.00
Female-owned/managed firms that received support through Industry upgrading and Export development programs. (Number)		0.00	32.00
Firms that received support through the outcome-based incentives program. (Number)		0.00	280.00
Female-owned/managed firms that received support through the outcome-based incentives program. (Number)		0.00	28.00
Firms that benefited from export credit insurance through project support. (Number)		0.00	45.00
Female-owned/managed firms that benefited from export credit insurance through project support. (Number)		0.00	5.00
Satisfaction of beneficiary firms with the implementation of the project, including its participatory approach and activities. (Percentage)		0.00	70.00

Monitoring & Evaluation Plan: PDO Indicators					
Indicator Name	**Definition/Description**	**Frequency**	**Datasource**	**Methodology for Data Collection**	**Responsibility for Data Collection**
The Fund is fully operational and beneficiary firms receive access to financial and advisory support through the Fund's programs.	Year 1: the Steering Committee (comprising private and public sector representatives) is appointed; ministerial instructions issued; Fund management staff hired; Action Plan, including Gender Action Plan, for the Fund adopted. Year 2: Annual report of the Fund published and approved by the Steering Committee with satisfactory audits for Fund's activities. Year 3: Fund's main programs are fully operational; TVA assessment and evaluation capacity is transferred to the Fund.	Annual	MOITS through implementin g partners.	MOITS reporting on achievement and providing all relevant evidences.	MOITS
Increase in annual export values by beneficiary firms of the project.	Average increase in export value [USD] by beneficiary firms of the project [in %].	Annual	MOITS through implementin	Program reporting.	MOITS

			g partners.		
Increase in private investment by beneficiary firms of the project.	Amount of additional private capital mobilized through the Fund's programs. This indicator will track the investment that is co-financed by the private sector during the implementation of the Fund's programs. The amounts of these investments will be part of a regular reporting pertaining the Fund's programs.	Annual	MOITS through implementing partners.	Program reporting.	MOITS

Monitoring & Evaluation Plan: Intermediate Results Indicators					
Indicator Name	**Definition/Description**	**Frequency**	**Datasource**	**Methodology for Data Collection**	**Responsibility for Data Collection**
Increased female employment in firms that participate in the outcome-based incentives program.	On average, firms that participated in the outcome-based incentives program and have chosen gender-related KPIs, increased their female employment share by 5 percentage points.	Annual	MOITS through implementing partners	Program reporting.	MOITS
Firms that improved water/electricity/waste management efficiency through the implementation of climate-smart solutions supported by the	Firms that have adopted climate-smart solutions to improve energy/water/waste	Annual	MOITS through implementing partners	Annual reporting	MOITS

project.	management efficiency through the support from the Fund. This will be measured both through the evidence of implemented solutions and increased efficiency measured through indicators such as energy intensity (e.g., energy consumption per unit of revenue/production), increase in renewable energy capacity, etc.				
Female-owned/managed firms that improved water/electricity/waste management efficiency through the implementation of climate-smart solutions supported by the project.	Female-owned/managed firms that have adopted climate-smart solutions to improve energy/water/waste management efficiency through the support from the Fund. This will be measured both through the evidence of implemented solutions and increased efficiency measured through indicators such as energy intensity (e.g., energy consumption per unit of revenue/production), increase in renewable energy capacity, etc.	Annual	MOITS through implementin g partners	Annual reporting	MOITS

Firms that received support through Industry upgrading and Export development programs.	Firms that received matching grants through the Industry upgrading and Export development programs.	Annual	MOITS through implementing partners	Annual reporting	MOITS
Female-owned/managed firms that received support through Industry upgrading and Export development programs.	Female-owned/managed firms that received matching grants through the Industry upgrading and Export development programs.	Annual	MOITS through implementing partners	Annual reporting	MOITS
Firms that received support through the outcome-based incentives program.	Firms that received grants through the outcome-based incentives program.	Annual	MOITS	Annual reporting	MOITS
Female-owned/managed firms that received support through the outcome-based incentives program.	Female-owned/managed firms that received grants through the outcome-based incentives program.	Annual	MOITS	Annual reporting	MOITS
Firms that benefited from export credit insurance through project support.	Firms that received JLGC export credit insurance with a premium partly covered by the Fund.	Annual	MOITS through JLGC	Annual reporting	MOITS
Female-owned/managed firms that benefited from export credit insurance through project support.	Female-owned/managed firms that received JLGC export credit insurance with a premium partly covered by the Fund.	Annual	MOITS through JLGC	Annual reporting	MOITS
Satisfaction of beneficiary firms with the implementation of the project, including its participatory approach and activities.	Annually conducted surveys will measure beneficiaries' satisfaction with the project's implementation progress and participatory	Annual	MOITS	Survey	MOITS

	approach. Results and the target are gender-disaggregated. Participatory activities will be measured. Survey findings will be used to generate action plans for implementing agencies to follow up on results and consider given feedback. Such action plans will be created after every conducted survey.				

ANNEX 1: Implementation arrangements and support plan

COUNTRY: Jordan
Jordan: Support for Industry Development Fund

1. **MOITS will be the implementing agency for the project**. The FMU at MOITS will perform the role of the PMU. The FMU will have the overall fiduciary responsibility for project implementation and ensure activities are executed in accordance with the POM. FMU will have the overall responsibility for the M&E of project activities, as well as designing and implementing outreach activities, e.g., specifically targeting women. The Fund will have a separate Steering Committee consisting of public/private sector representatives, to ensure strong management, robust governance, and sustainable operations of the Fund. Fund's Steering Committee will sign subsidiary agreements with partners that will implement the Fund's programs.
2. **MOITS does not have experience in implementing WBG investment projects, and their capacity for the implementation of this project will have to be strengthened**. Of the total project's funds, US$84 million is allocated for direct support to beneficiary firms, and US$1 million is allocated to cover costs associated with the Fund management, annual audits, monitoring, and evaluation activities. The costs of proper management and implementation support are expected to reach US$3-4 million. To ensure the proper implementation of this project, additional funds are needed to build the institutional capacity of MOITS and implementing partners (including CRM system), as well as to procure a TVA for the project.
3. **The information below provides more details on:** (i) specific capacity-building support needed for JEDCO and JE, who will be implementing partners for Industry upgrading and Export development programs; and (ii) the features of the programs themselves.

Industry upgrading and Export development programs[29]

4. **JEDCO areas for potential support include:** (a) further development of the organizational structure, organizational functions, and processes; (b) complete SOP for the development and delivery of new initiatives, and for related activities such as M&E procedures; (c) upgrade JEDCO's current online application portal to offer end-to-end functionality as it relates to 'digital' grant administration and on-going management including availing the needed access and administration permissions to partners such as MOITS, JE, and JLGC. This will also include the necessary upgrade, integration, and scaling of JEDCO's CRM system as part of the digital grant administration and management of this project and other JEDCO programs; (d) conduct a member satisfaction surveys to better understand the needs of JEDCO clients and measure their satisfaction with existing services; (e) other technical support (may include firm benchmarking, export marketing, digital technologies or understanding SME finance that are central to good program design and delivery, etc.); and (f) additional staff will be required, both administrative and technical (engineers and business consultants).
5. **JE has identified the following areas where they would benefit from additional and ongoing capacity building:**

   (a) Core administration. Comprehensive SOPs (policies, procedures, and templets) to underpin functions: (i) Enterprise Resource Planning system with the following modules; Financial, HR, Procurement, Inventory, CRM (note, this should be compatible with JEDCO and Ministry architecture); (ii) New visibility and Branding for JE

[29] The areas of potential support listed for JEDCO and JE are recommended following WB' institutional assessment for the two organizations. These areas will not be covered by the project financing or required for implementation of the project activities. That said, the World Bank recommends the two organizations to undertake these development actions.

(Brochures, Catalogues, etc.) and digital marketing, general and project-specific marketing; (iii) Reviewing website content; (iv) Furniture in case of expansion and hiring. In relation to staffing, JE has identified the need for four additional employees for grant management, two additional employees for FMU and M&E, five employees for HR and administration (including IT, procurement, finance, and marketing), and an internal auditor.

(b) Export promotion: (i) SOPs Controlling the operation in the department; (ii) Decorations and Visibility material for the participation in trade missions. In relation to staffing, JE has identified the need for three additional employees for missions.

(c) Sectoral projects – manufacturing and service-specific activities: (i) SOPs Controlling the operation in the department; (ii) Promotional material for projects and services; (iii) Risk Register; (iv) Promotional Campaigns (videos and ads). In relation to staffing, JE has identified the need for seven additional staff, mainly to undertake export assessments and oversee firm-level projects.

(d) Market information Centre (sectoral studies, Jordan Trade portal): (i) SOPs Controlling the operation in the department; (ii) Promotional material for projects and services; (iii) Promotional campaigns; (iv) Registration on paid information platforms; (v) Furniture in the case of expansion and hiring. In relation to staffing, JE has identified the need for five additional employees (researchers, and portal managers).

The table below provides key parameters of the programs that will be finalized in the POM.

Matching grants for industry upgrading and export development	
Eligible recipients	• Registered SMEs in Jordan with all necessary licenses in order. • Creditworthiness (e.g., absence of non-performing loans). • Associated with low to substantial environmental and social risks as per the screening criteria identified in the ESMF. • 2+ year operations.
Eligible activities	Industry upgrading (implemented by JEDCO): • Expansion of production lines. • Modernizing production processes to increase value-added, incl. through firm digitization. • Adopting quality standards/ obtaining quality certification for target markets. • Developing products (creating new products, developing existing ones, or producing new/unique products based on patents). • Adopting efficiency systems, incl, to the implementation of climate-smart solutions to increase water/energy/waste management efficiency. • Improving product packaging. • Others specified in the project operating manual. Export development (implemented by JE): • Registration fees and establishment costs of business development offices at target markets. • Firm-level marketing and promotion activities at target markets. • Participation in trade fairs at the firm-level. • Business-to-business matchmaking. • Targeted promotion and image-building activities. • Sales and business development. • Market testing. • Establishment of backward-forward linkages with large organizations. • Access to exporters' databases or business groups at the target market.

	• Market intelligence reports. • Market certification, incl. 'sustainability/green' certificates. • Others eligible activities included in the POM.
Grant ceiling over one program cycle (24 months)	Industry upgrading: JD100,000 Export development: JD50,000
Features	Grants will cover 50-70% of the total cost of implementation. SMEs must cover 30-50% of the needed funding. Advance payment will be 25%. In the eventuality that a beneficiary firm does not achieve the agreed milestones under these Programs, it will have to return the advance payment to the Fund.
Targeted number of firms	320 SMEs.

6. **The following is a breakdown of the application and selection process for industry upgrade and export development programs.** The Fund will announce the programs' criteria through the implementing partners, to beneficiary SMEs and open the applications process on a rolling basis. The implementing partners will invite interested SMEs to submit their applications through an integrated application process that leverages JEDCO's online portal. The applications should include (but not limited to) all business plan elements outlining their operational capabilities, growth plans, business development approach and objectives, expected results, milestones, and eligible activities/expenditures. The implementing partners will review applications, to check compliance with the eligibility criteria and select beneficiaries. JEDCO and JE will sign grant agreements with the selected firms.

7. **The beneficiary SMEs will proceed in the implementation of activities, procure required services/goods following commercial practices, and report back progress and results to the implementing partners on a quarterly basis.** Implementing partners will provide technical support and coaching services to beneficiary SMEs. The beneficiary SMEs will claim payments from the implementing partners following the achievement of agreed milestones and against eligible expenditures, triggering the disbursement by implementing partners. The implementing partners will furnish quarterly technical and financial reports to the Fund to provide progress on program implementation and results. The same firm can apply to the program multiple times, but there will be a cap on the maximum support that one firm can get from the program over one 'program cycle', which is 24 months.

Outcome-based incentives program

8. **This program will be managed directly by the FMU, and MOITS will leverage the existing staff and their experience in implementing the current export rebate program**. In the initial stages, the Fund will hire a TVA, which will support the assessment of firm-level baselines and achievement of agreed targets. The TVA can also support similar assessments and verifications required for other Fund's programs. However, the involvement of the agency will be phased out to ensure that the respective role and skills are transferred to the MOITS/Fund. This will help to build institutional capacity and contribute to sustainability beyond the project's lifetime. The table below provides key parameters of the program that will be finalized in the POM.

Outcome-based incentives program	
Eligible recipients	• Registered firms in Jordan with all necessary licenses in order. • Creditworthiness (e.g., absence of non-performing loans). • Associated with low to substantial environmental and social risks as per the screening

	criteria identified in the ESMF. • 2+ year operations.
Eligible outcomes	• Increasing revenue. • Increasing production capacity. • Introducing new exportable products. • Replacing traditional energy means with renewable energy sources and increasing the efficiency of water/electricity and waste management. • Increasing number of employees. • Increasing number of female employees. • Increasing number of employees with special needs. • Other eligible outcomes included in the POM.
Eligible activities	• Industry upgrading and modernization • Expansion of production lines. • Modernizing production processes to increase value-added, incl. through firm digitization. • Implementation of climate-smart solutions to increase water/energy/waste management efficiency. • Quality certification. • Product development (creating new products, developing existing ones, or producing new/unique products based on patents). • Implementing efficiency systems. • Registration fees and establishment costs of business development offices at target markets. • Firm-level marketing and promotion activities at target markets. • Participation at trade fairs on firm-level. • Targeted promotion and image-building activities. • Sales and business development. • Market testing. • Access to exporters' databases or business groups at the target market. • Market intelligence reports. • Adopting improved workplace conditions for women (such as flexible work; anti-discrimination and harassment policies; digital payment). • Providing incentives for female employees (transportation, childcare, etc.). • Other eligible activities included in the POM.
Incentive payment size for one program cycle (24 months)	Maximum JD per beneficiary: ○ Small: JD150,000 ○ Medium: JD300,000 ○ Large: JD500,000
Features	• Firms will manage the procurement process to select vendors following commercial practices • Incentive payments will cover 50% of the total cost of implementation. Accordingly, firms must cover 50% of the needed funding. The rate of matching will increase for beneficiary firms that achieve KPIs linked to climate-responsive targets (for example, increased energy/water/waste management efficiency) or overall resource efficiency targets (indicatively, increase in matching by 10 % each), and to higher female employment (indicatively, increase in matching rate by 15%). Advance payment will be 20%. In the eventuality that a beneficiary firm does not achieve the agreed milestones under these Programs, it will have to return the advance payment to the Fund.
Targeted number	280

of firms	

9. **The following is a breakdown of the selection and application process.** The Fund will set and announce the list of key KPIs (and eligibility criteria) to benefit from the program. To be eligible to receive incentive payments from this program, small companies will have to achieve at least one KPI, medium firms – at least two KPIs, and large firms – at least three KPIs, one of which will have to be either gender-related or linked to climate change/resource efficiency solutions. The Fund will invite manufacturing firms (large, medium, and small sizes) to apply and establish firm-level baselines and set targets. TVA (and, in later stages, qualified experts at MOITS/Fund) will establish firm-level baselines and will set targets. Setting the firm-level targets will be guided by a publicly announced range for each KPI. These range values will ensure transparency but will also give the flexibility to adjust to a firm's circumstances. The Fund will sign firm-level agreements with the beneficiary firms to include agreed-upon outcomes targets/thresholds, baseline data, eligible expenditures, and payment terms. The TVA (and, in later stages, qualified experts at MOITS/Fund) will evaluate the performance of enrolled firms at the end of the year to confirm their achievement and will confirm the eligibility of companies that achieved or exceeded their pre-set firm-level targets. Confirmed manufacturing firms will submit a claim to the Fund to receive the program's incentive payment against eligible expenditures.