Report Number: ICRR0022819

1. Project Data

Project ID	Project Name
P132314	JO MSME Dev. Project for Inclusive Growt
Country	**Practice Area(Lead)**
Jordan	Finance, Competitiveness and Innovation

L/C/TF Number(s)	Closing Date (Original)	Total Project Cost (USD)
IBRD-82320,IBRD-84970	31-Dec-2015	119,211,038.00
Bank Approval Date	**Closing Date (Actual)**	
05-Mar-2013	31-Dec-2020	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	70,000,000.00	0.00
Revised Commitment	120,000,000.00	0.00
Actual	119,211,038.00	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
Antonio M. Ollero	Christopher David Nelson	Christopher David Nelson	IEGSD (Unit 4)

2. Project Objectives and Components

a. Objectives

The project development objective of the Hashemite Kingdom of Jordan Micro, Small and Medium Enterprise (MSME) Project for Inclusive Growth was "to contribute to the improvement of access to finance for micro, small and medium enterprises."

b. Were the project objectives/key associated outcome targets revised during implementation?

No

c. Will a split evaluation be undertaken?

No

d. Components

The project had a single component.

Line of Credit to MSMEs (US$70 million estimated at appraisal, US$120 million estimated at additional financing, US$119.2 million disbursed at closing) supported: (a) the provision of lines of credit by the Central Bank of Jordan (CBJ), the implementing agency, to participating financial institutions – commercial banks and Islamic banks – for on-lending to eligible MSMEs and to microfinance institutions (MFIs) for on-lending to micro enterprises; and following the additional financing, (b) the provision of lines of credit by the CBJ directly to MFIs for on-lending to micro enterprises.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project Cost. The project was estimated to cost US$50 million at appraisal. The project was estimated to cost US$120 million following the request from the Government of Jordan for additional financing of US$70 million.

Project Financing. The project was financed with an IBRD loan of US$50 million approved in March 2013, and an additional IBRD loan of US$70 approved in April 2015. The amount of US$119.2 million was disbursed out of the total loan of US$120 million. The undisbursed balance of US$788,962 would be returned to the IBRD.

Borrower Contribution. The Government of Jordan did not contribute any financing to the project.

Dates. The project was approved on March 5, 2013, became effective on June 9, 2013, was approved for additional financing on April 17, 2015, and closed on December 31, 2020, five years after the closing date of the original loan in December 31, 2015. The additional financing in April 2015 added five years to the project duration.

3. Relevance of Objectives

Rationale

Binding Constraints. This project aimed to address constraints to employment generation, economic growth, and poverty reduction posed by poor access to finance for MSMEs.

MESMEs (microenterprises were businesses with less than five employees, and SMEs, 5-100 employees) accounted for 99 percent of some 150,000 registered enterprises in Jordan in 2012, and provided 71 percent of private sector employment.

Yet, despite their vital role in the economy, MSMEs suffered from poor access to formal finance, disproportionately compared to large corporates, according to the *Jordan Investment Climate Survey of 2012*. Only 27 percent of small enterprises and 38 percent of medium enterprises had a bank loan, compared to 53 percent of large enterprises. Banks, the principal source of external finance for SMEs, devoted only 11 percent of their loan portfolio to SMEs in Jordan, compared to the average 25 percent in emerging markets globally. Bank loans to SMEs were principally for working capital rather than investment, and thus of short maturity. And there were geographic disparities in access to finance, with SMEs in governorates including Irbid and Zarqa, with active SMEs, being less served by banks than MSMEs in Amman.

Several factors explained the low access to finance by MSMEs: (a) regulatory hurdles; (b) few banks had SME departments or the capability to lend to SMEs; (c) collateral-based lending (typically, collateral exceeded 23 percent of the loan value) disfavored SMEs; (d) the enforcement of contractual rights was cumbersome, time consuming, and costly, dis-incentivizing lending to SMEs; (e) the banks that lent to SMEs used outdated internal ratings techniques; (f) banks lacked information on borrower credit histories beyond two years, with credit data from retailers, traders, and utilities also unavailable to banks; and (g) the coverage of the public registry and the private credit bureau was limited, compared to those of other countries in the region.

Government Priorities. The project development objective was aligned with the government's medium-term priorities.

The *Jordan 2025 - A National Vision and Strategy,* adopted in 2015, advocated a new ten-year development strategy to achieve growth prosperity based on competitiveness. The project development objective was aligned with the vision for a "dynamic and globally competitive private sector." According to *Jordan 2025*, "The Central Bank acknowledges that funding for micro, small, and medium enterprises has been modest (10% of total facilities granted), which highlights the need to strengthen the sector's ability to access required finance with favorable lending conditions, since it is one of the vitally important sectors to drive economic activity. In light of this reality, the Central Bank strengthened its role in supporting local high value-added economic sectors in order to stimulate economic growth. The Bank has given more attention to SMEs, providing funding programs directed towards local industry, tourism, renewable energy, and agriculture for terms appropriate to the clients' financing needs (five years for industry, tourism, and agriculture, and 10 years for renewable energy), and with a ceiling of 5% of the loan portfolio of operating banks. In addition, the Central Bank has sought to provide credit lines for SMEs though banks operating in the Kingdom."

Bank Country Strategy. The project development objective was consistent with the Bank Group's strategy in Jordan, both at appraisal and at closing

The Bank Group *Country Partnership Strategy for the Hashemite Kingdom of Jordan for FY212-15* (CPS) committed support for the country's efforts to lay the foundations for creating inclusive growth in three focus areas – strengthening fiscal management and increasing accountability; strengthening the foundations for sustainable growth with a focus on competitiveness; and enhancing inclusiveness through social protection and local development. The project development objective was consistent with the second of the CPS pillars, specifically with the objective to support improvements in the business environment by removing the obstacles to MSME development.

The Bank Group *Country Partnership Framework for the Hashemite Kingdom of Jordan for the Period FY17-FY22* (CPF) pledged support for the country's development strategy organized around two pillars – to foster the conditions for stronger private-sector-led growth and better employment opportunities for all; and to improve the equity and quality of service delivery. The project development objective was consistent with the first of these pillars, specifically with the objective "to improve access to finance and skills development." The CPF cited continuing efforts to enhance the legal and regulatory framework for access to finance, support banking and non-banking financial institutions to strengthen their capacity to offer finance to SMEs, support microfinance institutions to widen their target beneficiaries, including women entrepreneurs, and reach underserved governorates, and improve the capacity of the Jordan Loan Guarantee Corporation to augment the market with loan guarantee products and services.

Rating
High

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective
To contribute to the improvement of access to finance for micro, small and medium enterprises.

Rationale
Theory of Change. The provision of lines of credit by the CBJ, funded by a fifteen-year loan from the Bank, to commercial banks, Islamic banks, and microfinance institutions for on-lending to MSMEs would improve the access to finance for MSMEs, particularly to longer-maturity term credit. A focus of the lines of credit on MSMEs owned by young entrepreneurs, owned by women entrepreneurs, and those in governorates outside of Amman, where the capital is located, would improve the access to finance of disadvantaged and underserved MSMEs. Importantly, the removal of regulatory constraints to direct lending to MFIs, part of the policy reform for the project extension, would particularly benefit micro enterprises. Additionally, parallel technical assistance programs to strengthen the institutional capacity of the Jordan Credit Guarantee Facility, financial institutions, and MSMEs would further improve the access to finance for MSMEs

Outputs. The project exceeded all seven output targets defined for the objective to contribute to the improvement of access to finance for micro, small and medium enterprises. As the line of credit was new, the baseline values for all output indicators was zero, or zero percent.

- The volume of the lending to MSMEs under the line of credit topped US$229 million at closing, exceeding the target of US$120 million. The banks leveraged the Bank financing by 1.9 times through relending of reflows from the project and through the extension of revolving credits to their borrowers.
- The number of banks engaged in MSME lending was 12, exceeding the target of 11 banks. The 12 banks were among the 26 commercial banks and four Islamic banks operating in Jordan.

- The number of MFIs engaged in micro enterprise lending under the line of credit was six, exceeding the target of two MFIs. Although allowed under the terms of the additional financing (the Cabinet approved Microfinance Bylaw No. 5 of 2015 allowing the direct financing of MFIs), the MFIS did not borrow directly from the CBJ. According to the ICR (page 18), problems with regulations involving the supervision of MFIs were resolved only toward the end of the project.
- Businesses owned by the youth (under 35 years of age), as a percentage of all businesses served by the line of credit, was 40.9 percent, exceeding the target of 10 percent.
- Businesses owned by women, as a percentage of all businesses served by the line of credit, was 78.3 percent, exceeding the target of 35 percent.
- The number of enterprises in governorates other than Amman, as a percentage of all enterprises served by the line of credit, was 68.2 percent, exceeding the target of 15 percent.
- The number of term loans (loans of over 12 months in maturity) provided to MSMEs under the line of credit was 10,777, exceeding the target of 1,500.

Outcomes. The project exceeded three and partially achieved one of four outcome targets defined for the objective to contribute to the improvement of access to finance for micro, small and medium enterprises.

- The number of MSME beneficiaries financed under the line of credit was 15,000, exceeding the target of 3,500.
- The overall MSME portfolio of all banks participating under the project rose from 5 percent of their total loan portfolio in the baseline to 9 percent by project closing, partially achieving the target of 10 percent.
- The net non-performing loans (NPLs) in the MSME portfolio of all banks participating under the project was cut from 6 percent of all MSME loans in the baseline to a weighted average 3.5 percent by project closing, exceeding the target for the NPL ratio to be cut to 4 percent. Although the relevance of this results indicator was only tangential to expanding access to finance for MSMEs, discussions with the Bank staff suggest that this indicator was included in the results framework to help measure the quality of the MSME credit portfolio of the participating financial institutions.
- The number of jobs created by MSMEs topped 8,386 at mid-term, exceeding the target of 5,500. According to the ICR, it was not possible for the Bank, which collected the data for this indicator, to obtain data after the outbreak of COVID-19. Arguably, the number of jobs created by MSMEs would have risen even further, after six more years of project implementation following the mid-term assessment in June 2014, when the data was reported.

There has been clear expansion in the banking sector of loans offered to the targeted population and strong evidence that this is resulting in an expansion of the business opportunities and the number of people employed, This aligns clearly with the intended change theory.

Rating
High

OVERALL EFFICACY

Rationale

The project exceeded the seven output targets and three of the four outcome targets set for the objective to contribute to the improvement of access to finance for MSMEs. Because the participating financial institutions rolled over repayments from sub-loans into additional rounds of on-lending to MSMEs, and also structured some sub-loans as revolving credits, the volume of bank lending to MSMEs expanded by almost twice the target of US$120 million over the seven years from 2013 to 2020. The line of credit benefitted about five times as many MSMEs than planned and generated 1.5 times more jobs than expected. Moreover, targets set for beneficiary MSMEs owned by the youth, owned or managed by women, and located outside of Amman were all exceeded.

Overall Efficacy Rating

High

5. Efficiency

Economic Efficiency. The Project Appraisal Document (PAD) did not compute an economic rate of return for the project. Rather the PAD listed the expected economic benefits of the project as consisting of: (a) lower costs and risks of lending to MSMEs, leading to expanded access to finance for MSMEs; (b) a systemic change in the perception of the bankability of MSMEs, also leading to expanded access to finance for MSMEs; (c) improved competitiveness for MSMEs; (d) increased access to finance by MSMEs that were based on transparent selection criteria and better quality information; (e) increase in incomes and employment generated by the MSMEs that gained improved access to finance; (f) decrease in the level of informality in business, as enterprises complied with tax and other business regulations to obtain credit from financial institutions; and (g) higher survival rate by MSMEs, as they maintained access to liquidity during periods of economy-wide distress.

The ICR did not compute an economic rate of return for the project either. Rather, the ICR argued that the cost efficiency of the project was substantial. With US$120 million in Bank funding, the project aimed to provide loans totaling US$120 million to 3,500 MSMEs. However, through reflows and revolving credits, participating commercial banks, Islamic banks, and MFIs were able to leverage the project resources 1.9 times and provide loans to 15,000 MSMEs. While the final numbers are impressive, the analysis is lacking: (a) considering that the Bank was providing a 15-year loan to the Government of Jordan for on-lending of term credits to MSMEs, the analysis should have considered the on-lending of reflows in calculating the expected number and value of MSME loans over the life of the project; (b) although reflows would not have been especially relevant to the analysis if the project closed as originally planned in two-years-and-a-half (June 2013 - December 2015); (c) following the additional financing, the Project Paper should have adjusted the targets considering that the project funds could be cycled two-to-three-times over the new seven-and-a-half-year life of the project (June 2013 - December 2020), if the target was for term credits of two-to-three-years maturity; (d) the appropriate comparison would be between the expected number and value of MSME loans with the reflows (computed at additional financing) and the actual number and value of MSME loans with the reflows (reported at closing). In view of the foregoing, there is not enough basis to judge the economic efficiency of the project, even using the cost efficiency criteria proposed by the ICR. This is disappointing given the range of ways economic benefits could have been calculated.

Operational Efficiency. The project disbursed practically all – 99.3 percent – of the project funds. The project closed as scheduled after the additional financing.

Efficiency Rating

Modest

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 ☐ Not Applicable
ICR Estimate		0	0 ☐ Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

The relevance of the project objective is rated high. The efficacy of the project is rated high. The efficiency of the project is rated modest. The outcome of the project is therefore rated moderately satisfactory.

a. **Outcome Rating**
Moderately Satisfactory

7. Risk to Development Outcome

Macroeconomic Risk. Jordan is expected to return to an average annual economic growth rate of 2.1 percent in 2021-23, after an economic contraction of 1.6 percent in 2020 following the outbreak of the COVID-19 pandemic. The recovery is forecast to be led by private activity as the government contends with limited fiscal space. The fiscal balance is expecting to remain in deficit over the near term, albeit narrowing to -4.4 percent of GDP by 2023 from -7.3 percent of GDP in 2020. Similarly, the current account balance will remain in deficit but narrow to -5.7 percent of GDP by 2023 from an estimated -11.3 percent of GDP in 2021. Under this baseline scenario, the risk to sustaining the development outcome of the project through further rounds of lending of reflows would be moderate.

COVID-19 Risk. However, the baseline prospects are subject to considerable downside risk as the COVID-19 pandemic persists. In 2020, the pandemic exacerbated the business challenges faces by SMSEs as a result of a decline in demand, disruptions to supply, tightening credit conditions, and a fall in investment. Surveys showed that 98 percent of SMSEs reported decreased liquidity and cash flow availability, with 44 percent of small enterprises and 34 percent of medium enterprises expecting to fall into arrears on their outstanding debt obligations. In response, central bank liquidity injections helped total deposits grow 4.2 percent in 2020, and private sector credit, 6.3 percent.

Institutional Capacity Risk. Institutional capacity risks at financial institutions to maintain SMSE lending and at MSMEs to avail of formal credit would be mitigated by continuing technical assistance including advisory services provided by the Bank, the International Finance Corporation (IFC), and multi-donor trust funds to banks, MFIs, and MSMEs in Jordan.

8. Assessment of Bank Performance

a. Quality-at-Entry

Analytic Foundations. The project was informed by analytic work on Jordan produced by the Bank, including: the *Hashemite Kingdom of Jordan - Financial Sector Assessment Development Module on SME Finance* (World Bank, 2011); the MSME Finance Gap Analysis (IFC, 2011); and the Jordan Investment Climate Survey (World Bank, 2012).

Linked Operations. According to the ICR (pages 12-14), the objectives and activities of this project were aligned with, and complemented by, other Bank operations in Jordan, including: (a) two development policy operations – the First and Second Development Policy Loans promoted private sector growth; (b) in particular, the loans supported, among others, the approval of credit information bylaws, establishment of a credit bureau, approval of a secured lending law, and establishment of a movable asset registry – all of which would support greater access to finance for MSMEs; (c) technical assistance and advisory services provided to Jordan by the World Bank-IFC MENA Regional MSME Technical Assistance Facility to assist the Jordan Loan Guarantee Corporation (JLGC) in enhancing its operations, provide advisory services to financial institutions that serve MSMEs, and build the capacity of MSMEs through entrepreneur networks, mentoring, and business incubator-type services; (d) technical assistance provided to Jordan by InfoDev to design and execute an intervention focused on enabling the growth of small-but high growth potential-enterprises; and (e) advisory services provided to Jordan by the Consultative Group to Assist the Poor (CGAP) to support the Ministry of Planning and International Cooperation to develop the first *Microfinance National Strategy* and provide capacity building to the Cairo-Amman Bank to start a micro finance operation.

Stakeholder Consultation. According to the PAD (page 22) and the ICR (pages 2, 27, and 32), the Bank consulted widely and with relevant partners in government, finance, and industry to ensure that the elements of the project design were relevant to the objective to expand MSME finance and were responsive to the needs of the target beneficiaries. The topics in the consultations included the choice of the apex institution for the line of credit, the eligibility criteria for sub-loans and for MEME sub-borrowers, and partnerships in the provision of technical assistance and training to MSMEs as well as capacity building for the credit bureau and the guarantee agency.

Donor Collaboration. The Bank coordinated the design and implementation of the project with other development partners. The Bank: (a) organized periodic round-table discussions with the key development partners to inform all parties of the project activities; and (b) agreed with the donors to conduct monthly meetings during the first year, and annual workshops thereafter, both coordinated by the Bank. According to the ICR (pages 14-15), the intra-donor collaboration followed the principles of the

Deauville Partnership, the global initiative launched by the Group of Seven (G7) states to provide Arab countries in transition with technical support to strengthen governance for transparent and accountable governments and to provide an economic framework for sustainable and inclusive growth.

Operational Risks and Mitigation Measures. The Bank conducted an operational risk assessment of the project and advanced risk mitigation measures. The Bank determined the overall operation risk to be moderate. To address project design risk, the Bank recommended that the CBJ be allowed to reallocate the line of credit for MSME lending to whichever of the two project components would best absorb the additional funding, demonstrate the greatest demand for funding, and have the best performance in terms of outreach (volume, geographic coverage, and gender) and repayment. To address stakeholder risk, where the stakeholders were the financial institutions, the Bank recommended that the eligibility criteria for choosing financial institutions be jointly formulated with the CBJ and be transparently communicated to interested financial institutions. With the general public as the stakeholder, the Bank recommended extensive consultations with the SMSE sector, a sharper focus on underserved MSMEs, and extensive communications by the CBJ with the general public on the purpose of the Bank loan. To address implementing agency risk, the Bank proposed that strict criteria be set by the CBJ for the selection of participating financial institutions, that the institutional capacity of a candidate financial institution be considered a selection criterion by the CBJ, and that each agreement between the CBJ and a participating financial institution be subject to a no-objection clearance by the Bank.

Moderate Deficiencies. The Bank did not conduct an economic analysis of the project, ex-ante. And while the PAD (pages 73-75) laid out plans for a three-part impact evaluation (a baseline survey, an impact assessment at mid-term, and another impact assessment at closing), complete with the details of a survey questionnaire covering both beneficiary (treatment group) and non-beneficiary MSMEs (control group), the Bank did not include the evaluation as part of the loan agreement. The Bank and the government had wide room to interpret the evaluation plan during implementation – the baseline survey was considered irrelevant and was dropped, and the impact surveys were used principally for results reporting. The content of the impact survey was not sufficient to allow an economic analysis of the project, ex-post, according to the Bank staff.

Quality-at-Entry Rating
Satisfactory

b. Quality of supervision

Supervision. According to the ICR (pages 32-34), the Bank provided regular supervision support to the project. The Bank filed 13 Implementation Status and Results Reports (ISRs) over the seven-and-a-half-year life of the project, or two a year, the average for Bank investment project financing operations. The Bank also filed four supervision Aide Memoires, covering, "reviews of project performance, progress on related projects, and identified challenges and correction measures," although there were no Aide Memoires after 2016. The Task Team Leader filed minutes of meetings instead, according to the ICR. The Bank also conducted a mid-term review of the project on June 15, 2014. The supervisions missions for this project were coordinated with the supervision missions for two related technical assistance operations: (a) the Enhancing Governance and Strengthening the Regulatory and Institutional Framework for MSME Development Project Transition Fund (US$3 million, 2014-17), which aimed to strengthen credit guarantees schemes, enhancing the consumer protection mechanism, and developing the regulatory and institutional framework for micro finance institutions and non-bank financial intermediaries; and (b) the joint Bank-IFC Jordan MSME Technical Assistance Facility Child Trust Fund (US$, 2012-17), which aimed to enhance enabling environment, provide advisory services to financial institutions; and provide support and training to MSMEs.

Adaptation. Responding to the government's request, the Bank prepared and approved an additional financing of US$50 million for the project in 2015. While there were no significant changes to the project development objective, the project design, and the implementation arrangements, the additional financing sharpened the focus of the project by: expanding the project coverage to include more governorates, increasing financing for new and start-up MSMEs, adding more financial institutions to the first set of 12, and, provided regulatory constraints were removed, allowing the CBJ to lend directly to MFIs (rather than lending to MFIs through the participating commercial banks and Islamic banks).

Moderate Deficiencies. There were moderate deficiencies with the Bank's supervision however. The project lacked some formal mission reports and follow-up letters to the government. And there were gaps with the supervision of compliance with the environmental and social safeguards monitoring and reporting requirements of the project (see Section 10).

Quality of Supervision Rating

Moderately Satisfactory

Overall Bank Performance Rating

Moderately Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

The M&E design defined seven output indicators and four outcome indicators to evidence the achievement of the program objective. The indicators were clearly defined, were measurable, and had identifiable data sources.

The M&E plan also called for the Project Implementation Unit at the CBJ to conduct the M&E of the project.

The Operations Manual defined templates to be used by participating financial institutions to report on the progress of SMSE lending operations under the project. There were also templates, albeit developed much later, for reporting on environmental and social risks and compliance with safeguards policies. The M&E plan called for the CBJ to collect the reports by participating financial institutions and MFIs on a quarterly schedule and include, with the M&E data, the interim financial reports for the project. However, the emphasis on meeting the project reporting requirements, the reliance on Bank metrics, and the lack of more regular qualitative insights on the clients limited the ability to learn more about the project beneficiaries.

b. M&E Implementation

According to the ICR (page 28), the CBJ reported that the participating financial institutions were in compliance with the project M&E reporting requirements. Problems with reporting on environmental and social topics were partly remedied with the conduct of additional training sessions and with the hiring of a consultant to help the financial institutions with the project reporting requirements.

Apart from the quarterly reports, two impact surveys were completed, although the actual implementation deviated from the original plans. The first impact evaluation conducted jointly by the Bank, the CBJ, the participating financial institutions, and MFIs in 2015 examined the impact of the project in terms of job creation, the number of sub-projects led by young entrepreneurs and women entrepreneurs, the number of first-time loan recipients, and regional credit penetration. The second impact evaluation in 2021 assessed the final outputs and outcomes of the project covering the same topics.

c. M&E Utilization

The M&E data – obtained from quarterly reports by participating financial institutions and MFIs – helped the CBJ sharpen the focus of the project on MSMEs owned by young entrepreneurs and by women entrepreneurs and those MSMEs located outside of Amman, particularly after the approval of the additional financing, according to the ICR (page 29).

The M&E data was also useful to the CBJ in reporting on financial access and financial inclusion in the country. The first *Financial Inclusion Report 2018*-2020 was issued by the CBJ in March 2021 and is available in the central bank's website.

M&E was rated satisfactory throughout project implementation, including in the last ISR (June 28, 2020).

M&E Quality Rating

Substantial

10. Other Issues

a. Safeguards

Environmental Safeguards. The project was classified as an environmental assessment category "FI" project at appraisal – the investment of Bank funds through a financial intermediary in sub-projects that may result in adverse environmental impacts. To adhere to Bank safeguards policies and government environmental laws and regulations (Environmental Protection Law No. 52/2006 and Ministry of Environment's EIA regulation no. 37/2005), an Environmental and Social Management Framework (ESMF) was developed to identify, minimize, avoid, screen out, mitigate and monitor potential social and environmental impacts. Published in the Bank InfoShop and the CBJ website in October 2012, the ESMF would be applied by participating financial institutions in the selection and supervision of MSMEs and sub-projects that would be financed under the line of credit. Negative environmental impacts would be mitigated by MSMEs which would prepare and implement subproject-specific Environmental and Social Management Plans (ESMPs).

According to the ICR (pages 30-31), the CBJ and the participating financial institutions did not consistently monitor the implementation of the ESMF as planned. To address this deficiency, the Bank and the CBJ: (a) carried out an environmental and social supervision mission in 2016 to visit participating financial institutions and MSMEs and collect responses to questionnaires; (b) hired a consultant to assist the CBJ and participating financial institutions with their compliance monitoring and reporting duties; and (c) organized a workshop in 2018 to introduce a new monitoring template with measurable indicators. While the annual monitoring schedule was not implemented either, a review of the end-of-project monitoring reports indicated that the participating financial institutions followed good practice in the due diligence, selection, and supervision of MSMEs and were in compliance with safeguards policies. In particular: (a) 16 participating financial institutions provided detailed reporting on the agreed format required by the CBJ; (b) 50 percent of participating financial institutions established formal institution-wide ESMFs (none existed before the project); (c) the portfolio tilted toward sectors that were not high-environmental-risk sectors, such as wholesale trade, retail trade, and apparel; and (d) all participating financial institutions conducted screening of sub-projects and reported zero loan exposure to excluded activities.

Social Safeguards. According to the ICR (pages 30-31), based on interviews with the CBJ, the participating financial institutions did not systematically report on labor issues and occupational health and safety conditions at MSMEs as required. At the same time, no complaints about labor or occupational safety conditions were filed either.

b. Fiduciary Compliance

Procurement. According to the PAD (page 21), loans to MSMEs would be mostly used to increase working capital at the MSMEs. For the limited procurement that would be undertaken by the MSMEs and financed by the project, Paragraph 3.13 of the *Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers* (January 2011) would apply, allowing the use of private sector or commercial procurement practices. The Operations Manual would set the basic procurement principles, procurement procedures, and commercial practices, including the acceptable methods allowing shopping or/and direct contracting, that would be followed.

According to the ICR (page 34), procurement activities were simple, low cost, and small, consisting mainly of the purchase of some equipment as well as the hiring of individual consultants. None of the procurement required a prior review by the Bank. No complaints were reported to the Bank. Procurement was rated satisfactory throughout project implementation, including in the last ISR (June 28, 2020).

Financial Management. Because the CBJ had no prior experience with Bank operations, the Bank rated financial management risk as substantial at appraisal and set up a ten-part risk mitigation plan. The salient features of the risk mitigation plan included strict eligibility criteria for the selection of participating financial institutions and a special purpose assignment by the CBJ to ensure that sub-loans to MSMEs also met similarly strict eligibility criteria. Coupled with the engagement of an independent external auditor, the risk mitigation measures helped ensure the competent financial management of the line of credit during project implementation.

According to the ICR (page 34), the project fund disbursement and financial management functions were managed by qualified CBJ staff: (a) the flow of funds was smooth; (b) the internal controls were sound; (c) quarterly interim unaudited financial reports were of acceptable content and quality, albeit submitted with some delay; and (d) all annual audited financial statements were unqualified with a "clean" audit opinion and management letters did not report any significant weaknesses on the project's internal controls. The project disbursed practically all of the available credit line except US$788,962 which would be returned to the Bank. The CBJ initially submitted the audit report covering only the year ending December 31, 2020. However, the requirement was for the last audit report to cover the period from January 1, 2020 up to grace period ending on April 30, 2021, which would be submitted by June 30, 2021. The CBJ subsequently submitted the revised audit report in October 2021, covering the correct period. Financial management was rated satisfactory throughout project implementation, including in the last ISR (June 28, 2020).

c. Unintended impacts (Positive or Negative)

---

d. Other

---

11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Satisfactory	Moderately Satisfactory	Although this ICR Review rates efficacy as high (an upgrade over the substantial rating in the ICR), it lacks sufficient data to judge the economic efficiency of the project.
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	
Quality of M&E	Substantial	Substantial	
Quality of ICR	---	Substantial	

12. Lessons

Three lessons are drawn from the ICR (pages 35-36), with some adaptation, and a fourth is added by this ICR Review.

A line of credit operation can be finely targeted to expand access to finance for underserved segments of the MSME market. This project had distinct targets for MSMEs owned by young entrepreneurs, MSMEs owned by women entrepreneurs, and MSMEs located in governorates outside of Amman. All the targets, set at appraisal and confirmed with the additional financing, were exceeded at project closing. The project also had an indicative target for term finance, which was exceeded at closing, and, following the additional financing, put a special focus on MFIs and micro enterprises, with the result that the number of MFIs participating in the line of the credit and the number of micro enterprise loans exceeded expectations. The design and performance of this project indicates that a line of credit operation can be targeted at very specific beneficiaries.

An institutionally and operationally capable apex institution is vital to the success of a financial intermediary lending operation. In this project, the CBJ, the country's monetary policy making body and bank supervisor, acted as the apex institution for on-lending by commercial banks, Islamic banks, and MFIs to MSMEs. The central bank was selected because it had market knowledge and a good governance structure, was a sound institution with a competent Board, had strong management capacity, and therefore could be credibly responsible and accountable, according to the ICR. The apex institution is credited with the strong performance of the project, which disbursed US$47.7 million, 95.4 percent of the original loan, within a year after project start. The choice of an apex institution is not necessarily confined to a central bank but, rather, must consider a capable and credible institution with good governance and strong management.

Close coordination among donors working on different but related parts of SME development benefits an access to finance project for MSMEs. In this project, the line of credit for MSMEs was complemented by technical assistance provided by multi-donor trust funds managed by the Bank, including the InfoDev, Enhancing Governance and Strengthening the Regulatory and Institutional Framework for MSME Development Project Transition Fund, and World Bank-IFC MENA Regional MSME Technical Assistance Facility. The project also benefitted from related operations funded by other donors and supporting the MSME sector, including for a partial credit guarantee fund and advisory services for a microfinance strategy.

Careful economic analysis of an MSME line of credit operation helps to better assess the net benefit of the operation to the economy. In this project, the Bank and the government missed an opportunity to systematically assess the economic efficiency of the line of credit operation. A formal cost-benefit analysis would have been demonstrably informative considering the achievement of the project in nearly doubling the target expansion in the volume of MSME lending and exceeding the job creation goal by one-and-a-half times. The assessment would have also been valuable in informing the design and choice of results targets of future line of credit operations that distinctly focus on under-served sections of the MSME sector, including youth- and women-owned or managed enterprises and those operating outside of economic capitals and business centers.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR was prepared following OPCS guidelines.

The assessment of the efficacy of the project was evidence-based. The ICR reported on the results of the output and outcome indicators defined at appraisal to measure the achievement of the project objective.

The quality of the analysis of various aspects of the project's performance was substantial. The ratings of the Bank's performance with project preparation and design (satisfactory) and during implementation (moderately satisfactory) were well justified. The discussion on M&E, environmental safeguards, social safeguards, procurement, and financial management were substantive.

The lessons drawn from the project were evidence-based and would be generally useful to both the design and implementation of future MSME finance operations.

a. Quality of ICR Rating
Substantial