

## **Terms of Reference (ToR)**

### **Jordan Innovative Startups and SMEs Fund (ISSF Company) Manager**

#### **I. ASSIGNMENT BACKGROUND**

1. The Innovative Startups Fund Company (ISSF Company) aims to increase early stage equity finance for innovative small and medium size enterprises (SMEs) in Jordan. The Company puts into practice the first recommendation of the Jordanian Economic Policy Council to set up a fund to facilitate financing to innovative startups and SMEs in an effort to increase the level of startups with high-growth potential.
2. The Company will support over 200 innovative startups from across the country with the establishment of a private sector managed “Innovative Startup and SMEs Fund” (ISSF). The US\$50 million investment from the WB will be complemented by US\$48 million in co-financing from the Central bank of Jordan (CBJ), bringing the total working capital of the ISSF to US\$98 million.
3. High-growth startups and SMEs are often the engines of job creation and economic growth. Startups in Jordan generate the most net new jobs: 40 percent of aggregate net job creation was due to young startup firms between 2006 and 2011. These young companies usually seek equity investment from angel investors and venture capital (VC) funds. However this type of financing is in very short supply in Jordan. This leaves many startups and SMEs to perish just as they reach a key stage towards higher growth and viability. A strong, dynamic VC industry can help increase the creation of startups and new jobs. Evidence shows that an increase in the supply of local venture capital positively affects: (i) the number of firm startups (ii) employment and (iii) aggregate income.
4. The ISSF Project seeks to generate a critical mass of successful ventures by creating a demonstration effect. This is expected to attract more private investors to invest in the Jordanian ecosystem, in turn leading to a better quality and quantity of investible startups, and a sustainable ecosystem over time. It also seeks to correct a coordination failure in the market that has impeded the development of a VC industry in Jordan. Based on global models, this is achieved through a temporary government injection of capital through a risk sharing facility with private investors until the industry is fully developed and self-sustaining. To achieve the project objectives, a private shareholding company will be established with private sector experts setting the board that will be chaired by the Director General of the Jordan Loan Guarantee Corporation that assumes the role of project implementing entity.

## II. PROJECT DESCRIPTION

5. **The Project Development Objective of the ISSF Project is to increase early stage equity finance for innovative small and medium enterprises (“SMEs”).**
6. The project will make investments in innovative startups and early stage SMEs leveraging private sector funds through the private sector managed by ISSF. The ISSF will also support the entrepreneurship ecosystem to generate a viable deal flow of startups. The Jordan Loan Guarantee Corporation (JLGC) will be responsible for legally setting up the ISSF Company and hiring manager who will manage the ISSF activities and report to the JLGC. The JLGC is a private corporation under the supervision of the Companies Comptroller who oversees all private companies.
7. Project funds will be distributed in three areas: (a) financing to innovative startups and SMEs including incentives to partner investors through investment support, (b) support to ecosystem providers to help create the deal flow of viable enterprises; and (c) project management. However, it should be noted that allocations are flexible to accommodate changes in market demand and costs. The ISSF manager may propose changes to the budget based on the appropriate needs. Should the amount under one activity not be completely deployed, the remaining balance may be re-allocated to another activity.
8. The components of the ISSF Project include the following:

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

- Under this activity, the ISSF is expected to invest US\$50 million in approximately 200 companies plus US\$3.5 million to be provided as investment support to partner investors. These figures are estimates and may change depending on market demand. Investments in startups will be balanced between the three high risk enterprise stages roughly categorized as: Seed (Investment Ticket Size (ITS) below US\$280,000); early stage (ITS US\$280,000 – US\$750,000); and VC (ITS US\$750,000 - US\$3 million). Investments in SMEs may be in the form of equity or quasi equity instruments such as convertible notes and other forms of concessional debt that partner investors or intermediaries judge as necessary for a company to succeed.
- The ISSF investment strategy will use a combination of direct investments in SMEs alongside private investment funds seeking to leverage financing on a specific deal, and indirect investment in SMEs through funds (as a shareholding partner). Selection criteria for all investments is detailed in the Project Operations Manual (POM).
- An approximate US\$70 million in equity investment is expected to be leveraged from private investors either as partner investors in funds (indirect investment) or as equity co-investors in deals (direct investment).

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

- The quality and number of viable investments made by the ISSF will depend on a strong ecosystem able to generate entrepreneurship opportunity across Jordan and channel it into more viable startups. This includes programs that include outreach to entrepreneurs from lagging regions, under-served industries (other than ICT), and underserved groups like women entrepreneurs.
- Under this activity, the ISSF Company will support at least 825 entrepreneurs/SMEs to become investor ready, as well as improve the quality and variety of services provided by intermediaries and networks dedicated to the creation of deal flow in Jordan. The objective is to bring 125 viable deals to be considered for financing by the ISSF. As part of project management and administration, the ISSF will assess the ecosystem development annually and identify priority areas for focus in the following year.

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

- Funds under this activity will cover the ISSF management costs over the project life. Costs of the ISSF include management and consultancy fees and operations and administrative costs for the management and supervision of the project investment and deal flow activities. Project funds will also support the ISSF's costs for the following: training and capacity building activities; marketing; conducting ecosystem assessments and analysis; setting up a coordination mechanism among related national and international programs; outreach specifically to the regions (website, conferences); citizen engagement activities; monitoring and evaluation (M&E); safeguards monitoring and review; legal; accounting, auditing, and financial management.
- Project funds will also cover costs incurred by the JLGC in its role as the implementing agency including: the setting up of the ISSF, managing the designated account, conducting the necessary fiduciary and safeguards supervision including grievance redress, and the hiring of a consultant to ensure overall compliance by the ISSF of its reporting obligations, to the MC and the World Bank.

**III. OBJECTIVE**

9. The objective of the ISSF Manager is to ensure effective and efficient management of the ISSF Company. The ISSF Manager will set out to the investment committee (IC) the ISSF investment strategy to meet the project development objective and criteria, and be solely responsible for ensuring the implementation of all the project activities including those related to the investments and deal flow creation.
10. The ISSF Manger will be the de facto Project Implementation Unit (PIU) in charge of all project operations and preparation and submission of required reporting. Specifically:

monitoring and reporting on project indicators, as well as on financial management, procurement, and safeguards in accordance with the project criteria indicated in the current POM. Any key changes to the investment strategy and allocations will require BOD and WB approval within the project life and the BOD’s approval after the WB project closes.

11. The ISSF manager will be part of the IC. The BOD will elect one of the BOD members to Chair the IC with the exception of the JLGC who cannot chair or be involved in the IC. The IC will sanction investments and exits proposed by the ISSF investment team as delegated to it by the BOD.

Figure 1 below provides an indicative ISSF Organizational Chart:

**Figure 1. Indicative ISSF Organizational Chart**



**Roles of the JLGC and public sector stakeholders**

12. The JLGC will not have any role in the implementation of the activities or selection of investments. The JLGC will hold the shares in the ISSF on behalf of the Government and when the ISSF is liquidated, the proceeds will be returned to the Government. A high-level Monitoring Committee (MC) composed of the Ministry of Planning and International Cooperation (MOPIC), the Central Bank of Jordan (CBJ), the Ministry of Finance and the Ministry of Industry and Trade will have a monitoring role in the project. The JLGC will report on a semiannual basis to the MC. The Government or the MC will not be involved in the operations or administration of the ISSF.
13. The JLGC will be responsible for setting up a Board of Directors (BOD) for the ISSF. The BOD in accordance with the Companies Law is responsible for deciding on investments that are presented to it by the ISSF IC.

14. Additional details on the role of each stakeholder can be found in the POM.

#### IV. SCOPE OF SERVICES

15. **The ISSF manager will be acting as the Asset Manager of the ISSF and be responsible for the following:**

- Setting out the ISSF investment strategy and be solely responsible for ensuring the implementation of all the project activities including those related to investments and deal flow creation. This will include but not limited to revisiting the proposed strategy in POM and adapting it local market needs and elaborating in the POM the; application, due diligence, and investment selection process (investment strategy/policy and operations), as well as the marketing, outreach and communications strategy and monitoring and evaluation plan, with approval from the ISSF Board and the World Bank.
- Proposing IC members with an adequate balance of expertise between equity investment in SMEs and investments in funds (FoFs) to the Board who will appoint the IC in accordance to criteria in the POM and on a non-objection from the WB. Set IC charter and all necessary documentation, governance, policies and procedures in the POM.
- Conducting the necessary marketing, outreach, training, capacity building, and support events and activities relevant to the success of the project. This will include pipeline development and execution.
- Participate in and lead negotiations and transaction structuring with potential investee companies. This will also include Due Diligence.
- Be part of the IC and lead all new proposal pretentions and collateral accordingly Staffing the ISSF, ensuring that there is relevant expertise of staff in SME investments and investments in Funds (FoFs), from the private and equity investment sector and be responsible for ensuring that all implementation and reporting are in accordance with the World Bank guidelines detailed in this manual. This includes all required budgeting and reporting.
- Tracking results of end beneficiaries, funds and intermediaries in accordance with the Project Results Framework and M & E guidelines specified in Annex 1 of the POM.
- Portfolio monitoring work and reporting to the various stakeholders including representation on relevant boards of investments.
- Measuring indirect job creation and monitor these results to the extent possible, following best practice frameworks.
- Setting up an acceptable financial system that will track payments, investments costs, quasi equity repayments, maturities, and investment yield/return until such a time when the final proceeds will be liquidated and returned to the GOJ.
- Reporting on a regular basis to the JLGC in accordance with the guidelines on reporting under the sections of financial management, safeguards (ESMF),

procurement, and project M&E. The World Bank will train ISSF staff and consultants involved in the project to perform reporting on FM and safeguards guidelines as needed.

## V. REQUIRED QUALIFICATIONS

**16.** The ISSF Manager must have 10 plus years of experience in equity investments in SMEs and/or Funds and exhibit: (a) the capacity to properly evaluate investment opportunities in SMEs and/or funds; (b) capacity to offer mentoring and other support that innovative young SMEs typically need; and (c) not have any criminal record or be included in the World Bank's blacklist database.

**17.** Prospective managers and key ISSF individuals must not be under any material litigation, proceedings or regulatory inquiries during the last three years. The tender process will also clearly outline selection criteria and weights assigned to each criterion. Selection criteria listed below emphasizes experience and long-term commitment. To maximize the positive effects of the project, selection criteria for the funds will include consideration of the extent of financial leverage they offer.

**18. Eligibility and Minimum Qualifications of the ISSF Manager:** Notwithstanding the eligibility criteria of IC members, the ISSF Manager must exhibit the following:

- Be non-governmental.
- The capacity to properly evaluate investment opportunities in SMEs and/or VC funds.
- The capacity to offer mentoring and other support that innovative young SMEs typically need.
- Have no conflict of interest.
- Assurance of not having any criminal record or be included in the World Bank's blacklist database.
- Have significant prior experience, including senior leadership and management positions, in private equity, venture capital, and/or investment banking.
- Experience in and analytical knowledge of emerging markets, including the Middle East region and preferably Jordan.
- Experience in negotiating and structuring complex equity and quasi equity transactions.
- Existing and usable network amongst financial investors and strategic investors in emerging markets.
- Experience in portfolio management, including facilitation of exits.
- Experience in establishing strong partnerships with the local private sector.
- Experience in implementing a monitoring and evaluation system to measure the impact of the Project activities and to track performance of Project beneficiaries.

19. Candidates will be evaluated on the basis of proposals submitted to the JLGC, in which applicants will be required to demonstrate their qualifications and competence, adequacy of methodology in responding to the proposed assignment and direct experience specifically related to the assignment. All candidates must be ready and willing to work and be based in Jordan.

## VI. REMUNERATION

20. As the manager of the ISSF Company, the manager will be paid **a fixed salary and performance bonus designed to reinforce the culture of success where the Company Manager is rewarded most clearly by the successes of the Company in appreciating capital values**. The Manager's remuneration will apply 2 elements:

**(a) Element 1: Attractive Salary.** The salary will be market-based to ensure that the Company attracts experienced professionals who bring significant value added. Selection criteria will emphasize relevant experiences and long term commitment.

**(b) Element 2: Staged milestone payments.** These payments are divided into 3 stages to reflect the various balances of work and achievements required for different stages of work and targets. The three stages are:

- i. **Stage 1:** Set up of operations. This includes the staffing of the appropriate ISSF Company staff and ensuring the Company is fully operational no later than 4 months after project effectiveness including, but not limited to: training of staff; active promotion of the ISSF; and formal or semi-formal association with funds and ecosystem support for the financing and deal flow activities. (This will be a disbursement condition).
- ii. **Stage 2:** Conclusion of investment deals. This includes a bonus structured as a percentage from the amount of private capital the ISSF leverages.
- iii. **Stage 3:** Success fee/Carried Interest: This final stage is when the ISSF Company is wound up and the value of the appreciated investment assets is realized. This is the main reward element and relates to the increase in investment values that have been created through the life of the project. This is usually structured in the form of a percentage of the profit.

## VII. SUPPLEMENTARY DOCUMENTS

For further information on the project and the ISSF Company, the following documents are provided:

- ISSF Project Appraisal Document
- ISSF Operations Manual