Document of

**The World Bank**

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# PROJECT OPERATIONS MANUAL

SUPPORT TO INNOVATIVE STARTUPS FUND PROJECT

TO THE

HASHEMITE KINGDOM OF JORDAN

Version 4 draft

19 May 2017

CURRENCY EQUIVALENTS

(Exchange Rate Effective {April 24, 2017})

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

FISCAL YEAR
January 1 - December 31

ABBREVIATIONS AND ACRONYMS

| | |
|---|---|
| BDC | Business Development Center |
| BDS | Business Development Services |
| BOD | Board of Directors |
| CBJ | Central Bank of Jordan |
| CFA | Co-Financing Agreement |
| CFO | Chief Financial Officer |
| CHF | Cooperative Housing Foundation |
| CPF | Country Partnership Framework |
| DA | Designated Account |
| DANIDA | Danish International Development Agency |
| DFATD | Department of Foreign Affairs, Trade, and Development |
| DfiD | Department for International Development |
| DG | Director General |
| EBRD | European Bank for Reconstruction and Development |
| EDP | Executive Development Plan |
| EFF | Extended Fund Facility |
| EPC | Economic Policy Council |
| ESIF | Early Stage Investment Finance |
| ESMF | Environmental and Social Management Framework |
| FM | Financial Management |
| FO | Financial Officer |
| GCC | Gulf Cooperation Council |
| GDP | Gross Domestic Product |
| GEI | Global Entrepreneurship Index |
| GOJ | Government of Jordan |
| GP | General Partner |
| IC | Investment Committee |
| IEG | Independent Evaluation Group |
| IMF | International Monetary Fund |
| IPCO | Intellectual Property & Commercialization Office |
| IR | Investment Readiness |
| iSMEs | Innovative SMEs |
| ISSF | Innovative Startups and SMEs Fund |
| JACPA | Jordanian Association for CPA |
| JICA | Japan International Cooperation Agency |
| JLGC | Jordan Loan Guarantee Corporation |
| LLP | limited liability partnerships |
| LPA | Limited Partnership |
| LPS | Partnership Limited by Shares |
| M&E | Monitoring and Evaluation |
| MFI | Microfinance Institution |
| MOPIC | Ministry of Planning and International Cooperation |
| MSMEs | Micro Small Medium Enterprises |
| OECD | Organization for Economic Co-operation and Development |
| OPIC | Overseas Private Investment Corporation |
| P4R | Program for Results |
| PA | Project Agreement |
| PE | Private Equity |

| | |
|---|---|
| PIU | Project Implementation Unit |
| POM | Project Operations Manual |
| PSC | Private Shareholding Company |
| QRCE | Queen Rania Center for Entrepreneurship |
| SA | Subsidiary Agreement |
| SCD | Systematic Country Diagnostic |
| SECO | Secretariat for Economic Affairs |
| SMEs | Small and Medium Enterprises |
| SORT | Systematic Operations Risk-rating Tool |
| SPV | Special Purpose Vehicle |
| T&C | Trade and Competitiveness |
| TOR | Terms of Reference |
| VC | Venture Capital |
| WBG | World Bank Group |

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# PART 1: INTRODUCTION

## 1. The Manual

This Manual includes guidelines to help facilitate the daily administration and management of the World Bank supported project (the Project). This manual can also be used as a reference for Project partners, in preparing their Legal agreements related to the Project. This manual identifies best practices and guidelines for achieving the intended results.

## 2. Users

The users of this manual are expected to be the, JLGC (implementing agency), MOPIC (Borrower), CBJ (financing partner) and the ISSF's (Project Implementation Unit) : Board of directors, CEO, CFO, compliance teams, internal auditors, investment team, marketing and deal-flow team, senior associates and other employees and associates of the ISSF.

## 3. Principles

This manual ensures that the implementing agency, ISSF, the Borrower and all related partners assume their proper responsibility towards their respected activities and conduct, policies and procedures that adhere to the World bank guidelines, comply with the laws of the Government of Jordan, and with the accounting principles and methodologies set up by the Ministry of Finance.

## 4. Purpose

The purposes of this Standard Operations Manual are to:

i. Guide the Board of Directors, CEO , CFO, Investment Committee, senior associates, compliance and marketing deal-flow teams and associated consultants in effectively managing, monitoring, and evaluating the ISSF investments,
ii. Ensure compliance with fiduciary and prudent investor responsibilities,
iii. Educate new directors, staff, committee and team members and investment managers, in order to maintain the consistency in ISSF investment processes necessary to produce good long-term results,
iv. Provide transparency and understanding of the ISSF's investment policies. The main purpose of the Manual is to enhance the effectiveness and efficiency of Project implementation and management by clarifying the roles and responsibilities as well as the mechanisms of interaction between different agencies and relevant Project staff. The Manual aims to clarify and streamline procedures between those of the Borrowing country and the World Bank, particularly where there are overlaps and inefficiencies, so that operations are carried out effectively, in a timely manner, and on the basis of agreed quality standards, and budgeted allocations.

Implementing agencies (IAs) should always be involved in project formulation, preparation and implementation process, demonstrating leadership and ownership.

In general, improving project management and / or portfolio helps to optimize the social and economic benefits of external assistance; and optimize efficiency and effectiveness in the use of Project resources in order to accelerate the development process.

## 5. Limitations and possible areas of improvement

a. This Manual covers only part of the project management cycle: implementation. The areas of planning, project identification, program design and project preparation are not covered. The guidelines and procedures outlined in this Manual are dynamic in nature and should evolve and be improved over time as practical experience has developed and lessons learned from implementation are known. Users of the Manual are therefore encouraged to identify areas for review and to propose necessary improvements where necessary. In order for this process to be undertaken in a meaningful way, it is recommended that all relevant parties develop a registry system, in which questions are asked and how they have been resolved, these comments should be recorded. These experiences could then serve as a basis for further discussions and revisions in future project manuals.

# PART 2: ROLES AND RESPONSIBILITIES TO THE PROJECT

The Jordan Loan Guarantee Corporation (JLGC) will be responsible for legally setting up the ISSF and hiring a private manager who will manage the ISSF activities. Contribution to the capital of the ISSF will be provided by the World Bank loan and an additional amount in the form of co-financing will be provided to the ISSF from the Central Bank of Jordan (CBJ). The JLGC will hold the shares in the ISSF on behalf of the Government until all assets are liquidated and the proceeds returned to the government. The government will not be involved in the operations or administration of the ISSF. The JLGC will be responsible for setting up a Board of Directors (BOD) for the ISSF. The BOD will delegate responsibility for investment selection/investment strategy and divestment to the ISSF investment committee and project activities management and operational decision-making to the ISSF manager who will report to the BOD. The BOD will maintain oversight on the soundness of implementation, company management and reporting in accordance to Jordanian Companies law and the criteria in the POM. The CBJ will not be a member of the Board and will not have a role in the ISSF other than providing capital and will take the position of a silent partner (no veto, non-voting shares). Governance and role of key stakeholders in the ISSF will be detailed under section 3.3.

## 1. Implementing Agency (The Jordan Loan Guarantee Corporation (JLGC))

The World Bank will sign a Project Agreement (PA) with the JLGC as the entity responsible for implementing the project in accordance with the LA and POM. The JLGC will put in place the necessary controls to ensure that the implementation of the project is subject to strict independent private sector led oversight and a transparent and professional investment strategy.

The JLGC would be legally responsible for:

a. establishing the Fund,
b. select a Board of Directors for the ISSF from the private sector with expertise in private sector industry, equity finance, legal and/or accountancy background with the Director General of JLGC acting as the Chairman of the Board.
c. Cause the ISSF to hire a qualified Manager from the private sector for the ISSF in accordance to the guidelines in the procurement section.
d. Cause the ISSF to enter into a management agreement with the ISSF Manager (Management Agreement) on terms and conditions acceptable to the WB.

e. Cause the ISSF to appoint an external auditor of the ISSF with qualifications and terms of reference acceptable to the WB no later than 6 months after the Effective Date
f. Cause the ISSF to hire a consultancy firm or extend the scope of the external auditor to perform annual audit of the ISSF beneficiaries, to ensure that the selection criteria set in this POM are met and the necessary due diligence has been carried out.
g. Cause the Board of Directors of ISSF, within 180 days from the Effective Date, to establish and maintain the Investment Committee in (IC) a form, members' qualifications and with functions acceptable to the WB. The IC shall be chaired by one of the members of the BOD (other than the Chairman) and consists of the ISSF Manager and private sector individuals selected by the ISSF BOD, approved by the JLGC and acceptable to the WB.
h. Ensure all proper project, fiduciary, and safeguards reporting and documentation is duly prepared and transmitted to the World Bank by the ISSF

## 2. Ministry that signs the loan with the World Bank on behalf of the Borrower

### The Ministry of Planning and International Cooperation (MOPIC)

The Ministry of Planning and International Cooperation (MoPIC) plays the pivotal role of liaising between donors and international financing institutions, and the ministries and government institutions. MoPIC's responsibility lies in formulating policies and procedures that are meant to enhance and develop relations with donors and international financing institutions in coordination with the relevant stakeholders to provide, coordinate and manage the necessary funding for development projects from different funding sources through soft loans, grants and technical assistance. MoPIC will take the necessary measures to develop aid coordination mechanisms in addition to the financial management of funds directed at development programs and projects in accordance with national priorities and strategies of donors.
MoPIC will sign the Loan Agreement (LA) and receive the World Bank loan on behalf of the Government of Jordan (GOJ) which will be responsible for repayment of the loan to the World Bank; at the same time.

## 3. Ministry under which the project company is registered

### Ministry of Industry and Trade

In the absence of a typical local Fund legal Structure, the ISSF Fund will be created as a Private Shareholding Company (PSC) under the Jordanian Companies Law of 1997 Law No. (22) and will be subject to the supervision of the Company Comptroller under the **Ministry of Industry and Trade** which supervises all private corporations. Under the Companies Law, the constitutional documents that govern the relationship of partners or shareholders in a Jordanian company are filed with the Companies Control Department at the Ministry of Industry & Trade. The MOIT will not be involved in the operations or administration of the ISSF and will not have any related role other than that designated by the above mentioned law.

## 4. The Central Bank of Jordan (CBJ)

The CBJ will hold 49% of the ISSF shares and is contributing in ISSF capital by providing US$48 million. Those will be Class B (non-voting, non-veto) shares. The CBJ will only provide capital and will not be represented on the board.

## 5. The World Bank Group

The WBG is providing a US$50 million loan to the Government of Jordan to support the Project. The WBG role and responsibilities are:

1. Make transfers to the Designated account in a timely manner
2. Review monitoring and evaluation reports produced by the ISSF
3. Give non-objection on the Board of Directors, ISSF Manager and IC members
4. Review all fiduciary and safeguards report
5. Conduct supervision missions at least once per year and report through Aide memoires to MOPIC

# PART 3 PROJECT DESCRIPTION

## SECTOR CONTEXT

There exist a number of challenges within the Jordanian entrepreneurship ecosystem that hinder startup creation and growth. Some of the challenges face the entrepreneur (demand) side, such as unclear regulatory systems and lack of adequate financial products. While other face the investor (supply side), such as lack of skilled entrepreneurs, absence of appropriate legal structures for financing and weakness in investor rights' protection. Below is a description of the main challenges related to the demand and supply side of early stage financing.

### 3.1 ENTREPRENEURSHIP AND INNOVATION ECOSYSTEM

The capacity to generate viable startups is limited. According to the Global Entrepreneurship Index, Jordan has above-world average rates in Opportunity Perception, Start-up Skills, networking, Cultural Support, Product Innovation and High Growth indicators but falls significantly below in terms of Risk Acceptance, and Risk Capital. Jordan has 10 incubators, 2 techno parks, a business angel network, and several business and export promotion support entities working with budding entrepreneurs and SMEs. Equity investors state that there is strong potential to create successful start-ups but there are too few effective investment readiness programs and mentoring that focus on preparing an entrepreneur and equipping them with the needed soft skills to promote and manage a business.

Table 1: Snapshot of Entrepreneurship support in Jordan across the various stages of company creation and development:

| Type of support | Idea stage | Pre-startup/business planning stage | Startup stage | Early stage | Early growth/VC stage |
|---|---|---|---|---|---|
| Business competitions, prizes etc. | 1-2 regional initiatives | | | | |
| Incubation | | | 10 incubators across Jordan:<br>Zain Inc.<br>Gaming Lab<br>iPark ICT incubator & Orange | | |
| Acceleration | | | 1 Oasis500 | | |
| Investment Readiness and mentoring | | | | | Endeavor Jordan |

| | | | | | |
|---|---|---|---|---|---|
| Training, access to markets, bus. Services, networks | QRCE - Queen Rania Center for Entrepreneurship<br>INJAZ- educational program | BDC- Business Development Center<br>JEDCO- Jordan Export Promotion Corporation | BDC<br>JEDCO<br>Int@j- Information and Communication Technology Association of Jordan | BDC<br>JEDCO<br>Int@j | BDC<br>Endeavor Jordan<br>Young Entrepreneurs' Association VC Funding Networking Service |

## 3.2 Business environment

Jordan's overall business environment ranking in the '2017 Doing Business' is 118 out of 189 with the worst indicators being: Getting credit (185/189), Protecting minority investors (165/189), and Resolving Insolvency (142/189)). Furthermore, the ranking for 'Starting a Business' slipped from 98 in 2016 to 106 in 2017 as did 'Dealing with construction permits' which fell from 96 to 109 in the same period. Additionally, the bankruptcy law and the law on secured transactions are yet to be ratified by the Parliament.

## 3.3 The supply of early stage financing for startups and small and medium enterprises in Jordan

Jordan has one of the lowest access to finance indicators in the world, especially for small enterprises. Data from 2014 shows that there are currently six (6) private equity (PE) funds in Jordan dedicated to investments with USD$3 billion of investments planned. The Jordanian seed and VC investment market remains nascent in terms of available and deployed capital, and number of transactions. The supply of early stage equity finance in Jordan does not meet the demand across all industries leaving many startups and SMEs to deplete their own resources from friends and family. There are current efforts by a couple of entities to raise new early stage equity funding but do not have enough capital in the market to sustainably meet their financing demand. This is especially the case for non-ICT sectors. Table 4 provides an estimate of potential investments the proposed project can fund as soon as it becomes operational during the first year. This is the expected pipeline for ISSF, funding will only be provided after review by the project fund and found acceptable by the Investment Committee.

Table 3: Current sources and type of financing in Jordan according to Firm life cycle

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

Table 4: Funds Currently Seeking to Leverage Additional Capital for Jordan (current potential ISSF pipeline)

| Fund name | Fund Size (US$ millions) | Proposed amount the project can put in immediately (US$ millions) |
|---|---|---|
| Oasis500 Seed fund | 20 | 4 (first round another 4 if they raise enough to bring it to $20m) |

| | | |
|---|---|---|
| **Silicon Badia/Endeavor Financial Inclusion Fund** | 50 | 4 (for Jordan investments) |
| **Financial Inclusion Fund** | 10 | 4 |

### 3.4 Project Description

A private sector company called the "Innovative Startups and SMEs Fund" (ISSF) will be set up by the JLGC to do the following activities:

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

The ISSF will be registered as a Jordanian company managed under pure commercial practices by a private manager selected on a competitive basis. The JLGC will own 51% Class A shares and the CBJ 49% Class B (non-voting, non-veto) Shares. The ISSF will have the sole purpose of implementing the activities of the Project which include making equity and quasi equity investments in innovative startups directly through ISSF or indirectly through funds, and implementing activities to through ecosystem support entities to create a quality deal flow of viable potential investments. The ISSF will have a term of 12 years with the option of extending its duration.

### 3.5 Project Development Objective and beneficiaries

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

1. **Innovative**[1]: Innovative in this context applies the Oslo Manual definition 3rd edition 2005[2] which

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

1) Product innovation: the introduction of a good or service that is new or significantly improved with respect to its characteristics or intended uses. This includes significant improvements in technical specifications, components and materials, incorporated software, user friendliness or other functional characteristics. Product innovation can utilize new knowledge or technologies, or can be based on new uses or combinations of existing knowledge or technologies.

states innovation means a new or improved products, goods or services; new or improved processes and/or business models.

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

## A. Project Beneficiaries

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

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2) Process innovation: the implementation of a new or significantly improved production or delivery method. This includes significant changes in techniques, equipment and/or software. Process innovation can be intended to decrease unit costs of production or delivery, to increase quality, or to produce or deliver new or significantly improved products.
3) Marketing innovation: is the implementation of a new marketing method involving significant changes in product design or packaging, product placement, product promotion or pricing. Marketing innovations are aimed at better addressing customer needs, opening up new markets, or newly positioning a firm's product on the market, with the objective of increasing firm's sales.
4) Organizational innovation: the implementation of a new organizational method in the firm's business practices, workplace, organization or external relations. Organizational innovations can be intended to increase a firm's performance by reducing administrative costs or transaction costs, improving workplace satisfaction (and thus labor productivity), gaining access to non-tradeable assets (such as codified external knowledge) or reducing costs of supplies.

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

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

## B. PDO-Level Results Indicators

The PDO will be measured through the following Results Indicators:

i. Amount of private capital mobilized through the project

ii. Beneficiary companies receiving financing through the project

iii. Beneficiary companies that introduced a new product or process

**The project is expected to contribute to a large number of indirect jobs due to spillover effects on the supply and value chain; however, this is beyond the monitoring scope of the project.** Direct jobs created will be positive but are not expected to make significant economic impact as such jobs is not included as a core indicator however, the project will track the number of new jobs by gender and by age that are directly created by the project beneficiaries to assess the job creation impact on women and youth (age 18 – 35 years). The project will also explore best practice frameworks on how to measure indirect jobs under such an operation and monitor the results to the extent possible. The target industries the project supports do not include sectors where Syrian refugees are allowed to work in (Manufacturing or Agriculture) however, it is possible that the project draws entrepreneurs and/or investors from the community of legal Syrian refugees and the project will track this as part of the broader M&E framework.

### 3.6 INSTITUTIONAL AND LEGAL STRUCTURE

a. The Ministry of Planning and International Cooperation (MOPIC) will sign the Loan Agreement (LA) and receive the World Bank loan on behalf of the government of Jordan (GOJ) who will be responsible for repayment of the loan to the World Bank; at the same time
b. The World Bank will sign a Project Agreement (PA) with the JLGC as the entity responsible for implementing the project in accordance with the LA and POM.
c. MOPIC will also sign a Co-Financing Agreement (CFA) with the CBJ with regards to the Co-Financing that the CBJ will provide to the project; and
d. MOPIC will sign a Subsidiary Agreement (SA) with the JLGC as the implementing agency.
e. A high level Monitoring Committee (MC) composed of MOPIC, the CBJ, Ministry of Finance, and Ministry of Industry and Trade will have a high level monitoring role of the project and its progress towards the development objective. The JLGC will report on an annual basis to the MC and to the WB as required in the LA and PA. The government or the MC will not be involved in the operations or administration of the ISSF.
f. At the project Mid-term review (MTR), the WB and the MC will review the performance of the ISSF in terms of its sustainability and of meeting the project objective and in consultation with stakeholders from government and the private sector decide on appropriate measures to take as necessary.
g.

**Figure 7: Legal Arrangement**

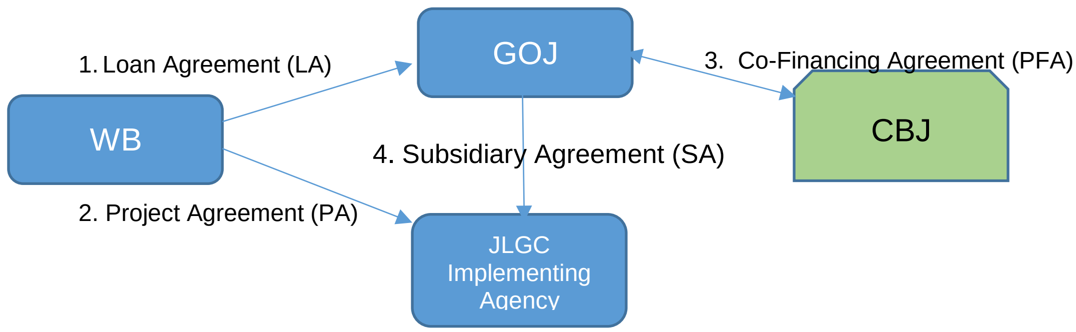
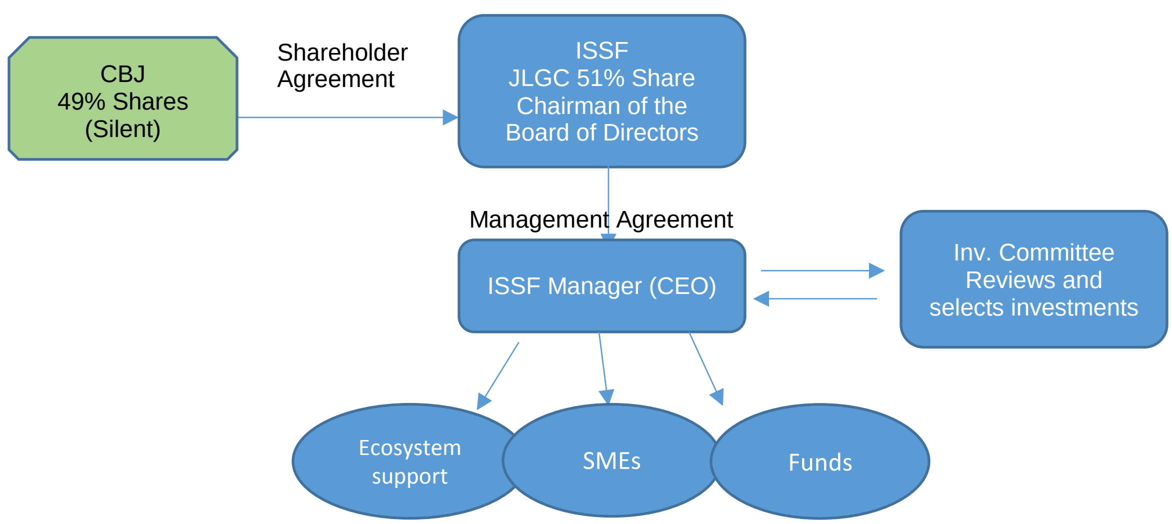



**Figure 8: Institutional Implementation**




## 3.7 Governance and Role of Key Stakeholders in the ISSF

**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.** The JLGC will report on an annual basis to the MC and WB. The government or the MC will not be involved in the operations or administration of the ISSF.

The governance structure and role of each entity is described below:

## 1. The JLGC (will have no role in the ISSF, rather will cause ISSF to do……..)

The JLGC will not have any role in the implementation of the activities or selection of investments. However the JLGC will be responsible for:

a. Legally setting up the ISSF as a private shareholding company and assume 51 percent of the shareholdings and 49 percent of shares will be accorded to the CBJ.
b. Causing ISSF to have a BOD chaired by JLGC General Director.
c. Causing the ISSF to select a Manager from the private sector with international experience. The selection process and evaluation will be conducted based preferably on competitive practices and in accordance to procurement principles.
d. Causing BOD of ISSF to hire ISSF manager. Selection and evaluation of the ISSF manager will be made using criteria provided by the World Bank and approved by the JLGC Board under technical non objection from the World Bank.
e. Ensuring that in addition to implementing Project activities, the selected ISSF manager will be responsible for collecting all the data required for the Project Indicators, supervising and providing reporting to the World Bank in accordance with financial management, procurement principles, and safeguards guidelines.

## 2. The Central Bank Of Jordan

**The CBJ will have no role in the ISSF.** The CBJ will only provide capital and will take the position of a silent partner (no veto, non-voting shares, and no Board seat). According to the Company Law the CBJ can have the JLGC represent it on the BOD. **The CBJ has committed to provide US$48 million to the Capital of the ISSF in addition to the World Bank loan. As such the ISSF will have a total Capital of US$98 million enough to carry it for the duration of its life (12 years) allowing it to re-balance its investments and gain sustainability until all investments are exited/liquidated (early stage investments in Jordan take an average of 7-9 years before they can be exited).**

## 3. ISSF Board of Directors (BOD)

<u>Composition:</u>

The ISSF will have a BOD selected by the JLGC in accordance to Jordanian Companies Law and based on criteria and non-objection of the World Bank.

a. The JLGC Director General (DG) will be the Chairman of the Board.
b. In addition to the JLGC DG, the BOD will consist of up to 6 private sector experts in:
    i. Industry,
    ii. Equity finance,
    iii. Entrepreneurship,
    iv. Corporate law,
    v. Accounting/finance
c. The term of the BOD shall be (4) years.
d. Membership for any member shall terminate upon the lapse of the term of the Board/death/resignation/or removal from the Board and election/renewal of new/current

members will follow the process required by the Jordanian Companies Law.

The Board of Directors shall be responsible, inter alia, for:

a. Selecting the ISSF Manager in accordance to WB criteria and technical non-objection
b. Selecting the IC members, from those recommended by the ISSF Manager, in accordance to WB criteria and technical non-objection
c. Chairing the IC meetings whereupon the BOD will elect one of the BOD members to Chair (JLGC General Director is not included).

b. Sanctioning investments selected by the IC that fall above a specific capital amount or delegating selection of all investments to the IC (the BOD cannot take any investment/divestment decision without recommendation of the IC).

a. Overall supervision of the executive management activities.
b. Appointing an internal auditor to carry out objective and independent in-house audits
c. Other functions or delegations thereof as stipulated under ISSF Memorandum and Articles of the Association.

Eligibility:

To be eligible as a member of the BOD an individual must:

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

4. ISSF Manager

The ISSF manager will be responsible for:

a. 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.
b. Conducting the necessary marketing, outreach, training, capacity building, and support events and activities relevant to the success of the project.
c. Be part of the investment committee.
d. Staffing the ISSF, and will be responsible for ensuring that all implementation and reporting are in accordance with the World Bank guidelines detailed in this manual.
e. **Tracking results of end beneficiaries, funds and intermediaries in accordance with the Project Results Framework and M & E guidelines specified in Annex 1**
f. **Measuring indirect job creation and monitor these results to the extent possible, following best practice frameworks.**
g. **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**

Remuneration:

The ISSF manger will be acting as the Asset manager of the ISSF and will be paid a management fee and performance fee designed to reinforce the culture of success where the Fund Manager is rewarded most clearly by the successes of the fund in appreciating capital values. The Fund Manager's fees will apply 2 elements:

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

Selection process and Criteria for the ISSF manager

Notwithstanding the eligibility criteria of IC members, the ISSF Manager must exhibit:

a. Be non-governmental;
b. The capacity to properly evaluate investment opportunities in SMEs;
c. The capacity to offer mentoring and other support that innovative young SMEs typically need;
d. Have limited or no conflict of interest
e. Assurance of not having any criminal record or be included in the World Bank's blacklist database.

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.

## 5. Investment Committee (IC)

The JLGC, CBJ, and any government representative or official will not have any role in the selection and management of investments; this will be the sole responsibility of the ISSF investment committee (IC) for investment tickets that fall under specific threshold approved by the ISSF BOD. The IC will also be in charge all exits and all restructurings across the areas that ISSF is involved in as delegated to it by the BOD.

<u>Composition:</u>
The IC will be composed of 5 members including the ISSF manager and one of ISSF BOD members (except the General Director of JLGC) who will Chair the IC meetings.

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

<u>Eligibility:</u>

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

a. Be non-governmental
b. Possess Experience in VC/investment.
c. Possess Experience in the entrepreneurial ecosystem – either as an investor, or as an entrepreneur.
d. Have limited or no conflict of interest
e. Possess strong analytical and operational experience

<u>Tasks and Obligations of the IC include:</u>

a. Formal approval of all Investments as designated to it by the BOD
b. Understanding the ISSF investment goals and objectives
c. Adopting, reviewing and revising the ISSF investment policies and guidelines
d. Establishing a strategic framework within the overall ISSF strategy for capital deployments
e. Authorizing all capital deployment activities within the set guidelines and framework.
f. Monitoring and reviewing performance of direct and indirect investments including taking necessary corrective actions as needed.
g. Approve all exits as delegated by the BOD
h. Administrative:

Move the Conflict of Interest part here, considering it is relevant to IC work and investment decisions.3.8 PROJECT ACTIVITIES:

1. Component 1:

Financing **US$53.5 million (of which US$44.75 million is World Bank financing) in Equity/quasi equity financing**

Under this activity the ISSF is expected to invest US$50 million in approximately 200 companies and provide approximately US$3.5 million in investment support to partner investors. Investments in startups will be balanced between the three high risk enterprise stages roughly categorized as:

a. Seed (investment ticket size (ITS) below– US$280,000);
b. Early stage (ITS US$280-000 – US$750,000); and

VC (ITS US$750,000 - US$3m).

Investments in SMEs may be in the form of equity or quasi equity instruments such as convertible notes[3] and other form of concessional debt that partner investors or intermediaries judge as necessary for a company to succeed.

Investments will be opportunistic across all sectors. However, it is expected that investments will be primarily in Technology, Media, Telecom, Service sector with some in Agribusiness, Pharmaceutical, water, and green energy. Investments will not involve real estate, construction or heavy manufacturing.

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).

Investment support

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

2. Component 2.

DEAL-FLOW CREATION **(US$6.25 million (of which US$3.125 million is World Bank financing) in Deal-flow creation**

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

The ISSF will contract/outsource to one or more support providers (such as accelerators, incubators and business development support entities and the like) in accordance to criteria set in this section, and cover their cost, to implement the following deal flow creation activities:

a. **Incubation/Acceleration programs.**
These programs will target brand new ventures (or teams that are planning a venture).
The programs will accelerate 10 - 12 cohorts of entrepreneurs; each cohort will include 15-20 ventures/teams. Acceleration programs typically feature time–limited support (four to six months) comprising programmed events, training and intensive mentoring to test the viability of a business model/product often utilizing lean start-up methodologies, an application process that is 'in principle' open to all, yet highly competitive, and cohorts or classes of startups rather than individual companies. They mostly focus on small teams, not individual founders and may start with idea/concept development (hackathons and competitions) followed by bootcamp training and specialized support, and conclude with a periodic graduation with a Demo Day/Investor Day.

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

Programs will be sector agnostic and should target all governorates and exhibit specific effort to reach women entrepreneurs.

b. **Investment Readiness training and business development services for young ventures seeking capital and established SMEs looking to substantially increase growth**.
This support targets ventures already operating, which require specific assistance to become ready/eligible for investment through the ISSF. Ventures seeking investment from the ISSF may come from startups that recently graduated from an acceleration program who will need to go through and investment readiness (IR) program and/or existing SMEs who are looking to expand through an innovative product or process and require more individualized business development services (BDS).

- Investment Readiness training has similarities to acceleration programs although they are more focused, and encompass how investors and the whole investment process works, how to appeal to investors, identifying weaknesses in current business model and 'pitch' , is provided to groups online and face to face and includes coaching and pitch events).
- Business development services will incorporate an assessment of applicant SME performance and growth potential, then will provide/find specialist consulting support to address the impediments to the investment attraction plans identified in those applicants with the highest potential. The BDS program will target 75 growth SMEs over the timeframe of the project. To ensure only serious SMEs receive the support the BDS program will partially fund the costs (to a maximum amount of US$20,000 per SME). The SME will cover the remaining costs from other sources.

c. **Develop Angel investor networks.** Develop at least two Jordanian business angel groups, by supporting new group formation; network design and establishment; group manager training and mentoring; angel member training and mentoring; and/or support system-level activities benefitting all Jordanian angel networks. Support to developing women business angels will be encouraged.

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

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

### 3.9 Investment Implementation

1. Investment Parameters

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

Table 1.1: Broad investment parameters of the ISSF over the project life (6 years)*

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

* Includes WB project funds and funds from CBJ contribution

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

## 2. Eligible SMEs

Eligible SMEs will be existing businesses with clear growth plans to increase productivity, introduce new product, or access a new market; and with interest to apply for ISSF's quasi equity or equity investment scheme. SMEs should fulfil the criteria below:

a. A Well-defined and plausible technology or business model that could do what is claimed and be produced to sell to a market;
b. A Well-defined and plausible market and customer base who would be interested in buying the product or service which offers performance, cost or other benefits over and above those of current products or other potential market competitors;
c. The business model offers the opportunity to be scaled rapidly, and would provide a profitable surplus to give an attractive return to the financial investor;
d. Sound leadership and management team with the right skills and personal strengths of

persistence and determination to continue to build a successful business and realize the value contained in the business idea; and

e. That the proposed expenditure within the project makes sense – and is value for money (e.g. proposed consultancies were in scope, salaries and wages are sensible).

3. Indirect Investments Guidelines

a. The purpose of this allocation is to allow ISSF to the creation of a sustainable funding (fund or similar) ecosystem that will in turn leverage ISSF funding to raise private sector capital whilst investing in startups across the various stages of the lifecycle of eligible enterprises.
b. Pre Seed, Seed and Early Stage funds will have to have a training element in their mandate that addresses both startups and investors. They will also be required, if appropriate, to develop a network of mentors and advisors that their investments / ecosystem can benefit from. These programs will need to work with ISSF on these industry building activities alongside other key stakeholders in the ecosystem – e.g. universities.
c. Funding allocation from ISSF into the various funds (indirect investments) can take place during first close but should be prorated based on total fund raise. Advances are possible to help kick start operations.
d. Each fund manager can apply to a maximum of 2 allocations from ISSF; they could take place at the same time assuming the fund addresses different elements of the ecosystem.
e. At least 50 percent of the capital allocated will need to go to newly established fund / fund managers.

4. Evaluation Criteria for an investment in a fund:

When evaluating an investment the following elements must be taken into consideration:

a. Track Record; including annual audited financial statements[4] (the audit report must be void of any adverse or disclaimer opinions in the last 3 years);
b. Structure;
c. Management / Team;
d. Investment Strategy;
e. Focus / Sector / Market;
f. Sustainability;
g. Key man risk;
h. Stage;
i. Budgets;
j. Commercial Returns;
k. Fund Economics (i.e. Management Fees, Hurdle Rates, Carry, etc.);
l. Fund Size & Life;
m. Development Impact.
n. Due diligence reports for investments will be made available to the World Bank upon request.

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

## 5. Eligible funds

To receive ISSF capital, an Eligible fund must have a physical operational presence in Jordan, invest in companies that are physically located in Jordan and have audited financial statements in accordance to the project criteria indicted below:

Eligible funds are required to have:

a. A capital structure that allows them to finance high risk start-ups and/or growth-oriented existing companies;
b. The capacity to appraise investment opportunities on a professional basis;
c. The capacity to offer mentorship and other support for the companies and entrepreneurs in which they invest;
d. Availability of additional financing to sustain the company in the event of a change of plans.
e. Solid experience in investing in innovative companies and present evidence of their professional capacities and capital availability.
f. Ability to meet the financial requirements to conduct and manage investments acceptable to the World Bank.
g. A minimum of 2 years of operations having in place a sound financial systems and audited financial statements by an auditor licensed from the Jordanian Association for CPA (JACPA) and not have adverse or disclaimer audit opinions for the last three years.
h. Not be under litigation or on the list of banned companies in Jordan or by the World Bank
i. Key company personnel (owner and or CEO) must not have any criminal record and is not under any blacklist used by the JLGC or the World Bank

## 6. Direct Investments Guidelines

a. The purpose of this allocation is to allow ISSF to support key startups that can either be generated from any of the funds that the ISSF program has supported and / or directly sourced from the ecosystem of eligible enterprises.
b. The company will need to have a co-investor(s) as the ISSF will only contribute a part of the overall capital raise – refer to Table 1.1.
c. The lead investor in the opportunity will need to provide all Due Diligence to ISSF
d. The opportunity should yield a projected IRR or at least 15 percent
e. A company can only apply up to two times for ISSF investments across its lifecycle. If the company is applying for a second investments, the company must meet a majority of their base case assumptions under the first investment.

## 7. Investment structure

a. Equity:, a straightforward equity investment in the target firm with ISSF subscribing to share capital in the entity at the agreed valuation. This straightforward structure may be modified so that the investment is made in tranches (steps). The steps may be benchmarked against targets, milestones or a specific timeframe. The subscription price may also be adjusted up or down if milestones are not achieved or forecasts are exceeded.

b. Convertible Debt: ISSF provides financing to the enterprise as a loan at an agreed interest rate, but the loan becomes convertible into equity in the target business (sometimes automatically, at other times upon election of ISSF).
c. In most cases, as approved by the Investment Committee the ISSF would look to sign a term sheet highlighting the overall structure of a deal. The purpose here is to highlight the intent and the overall perceived structure. This is non-binding and is subject to change based on the outcome of the due diligence process.
d. Regardless of the structure of the investment, certain standard protective provisions will need to be included in the various agreements. These include terms such as drag and tag rights, rights of first refusals, audit rights, board seats, targets, non-compete, good leaver and bad leaver clauses and various reserved matters. These terms are determined on a case by case basis and are mainly there to protect ISF downside risk.

8. Evaluation Criteria for a direct investment:

When evaluating a co-investment the following should be taken into consideration

a. Team
b. Stage of investment
c. Market size
d. Comparative edge
e. Market validation
f. Business model and unit economics
g. Risk
h. Valuation
i. Exit
j. Track Record including annual audited financial statements[5] (the audit report must be void of any adverse or disclaimer opinions in the last 3 years)
k. Due diligence reports for investments will be made available to the World Bank upon request.

9. Investment Selection process

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

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

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

c. Decisions made by the IC/BOD will be evidenced by resolutions passed at a meeting and recorded in the minutes of the respective meeting, or by a written resolution (including unambiguous email approval) signed by all members of the Committee.
d. The IC shall be responsible for the appointment, compensation and oversight of the work of any independent counsel or other advisers retained by the IC, and the ISSF shall provide appropriate funding for payment of reasonable compensation to any such independent counsel or other advisers retained by the IC.

The detailed application process, criteria and conditions for assessment and selection of proposals applying for direct and indirect investment, the role of ISSF as an asset manager, and exit procedures are listed in Annex 4

## 10. Conflict of interest policy

Policy

The purpose of the conflict of interest policy is to protect the ISSF and consequently the WB, CBJ and JLGC interest when the Investment committee is contemplating entering into a transaction or arrangement that might benefit the private interest of one of its members or might result in a possible excess benefit transaction, this policy is intended to supplement but not replace any applicable laws governing conflicts of interest.

Procedure

a. The BOD members and Investment Committee members will sign a written declaration that include clear covenants on conflict of interest and remedial/ legal actions shall a member not abide by the conflict of interest related policies and procedures.
b. Along with the appointment agreements, each member must attach a declaration of interest which specified accurately the business interests and affiliates the member has. This includes his direct interest, relatives, and close friends.
c. The BOD secretariat will prepare a mapping of interests that shows all the BOD members' and IC members' interests and affiliations. Such mapping will be presented to the BOD and acknowledged. The BOD will need to update this mapping on periodic basis.
d. A code of conduct will be developed and reviewed on an ongoing basis. The code of conduct will address the conflict of interest matter and detail the declaration and wrongful conduct implications as well as the procedures to address such cases.
e. The ethical duty of members to come forward and declare actual or apparent conflict of interests before meetings that review or decide on related investments. The member will excuse himself from attending the meeting and will not have a voting right for that investment case.
   Apparent, potential or actual cases of conflict of interest, informed by assessments, audit reports or through complaints received by JLGC and/or ISSF will be investigated jointly by the Compliance officer and the Internal Auditor. A report on the findings will be presented to the BOD for their decision on the corrective/ remedial actions based on the related policies, procedures and code of conduct.

Mitigation measures:

The Committee and BOD members and any other person present at an investment selection meeting (Invitees) must declare any actual or potential conflicts of interest in any investments at the start of each meeting or, at a minimum, before discussion of the relevant agenda item or topic. All details of any conflict of interest must be documented in detail in the minutes of the relevant meeting. Before discussing the relevant agenda item or topic, the Committee must determine by majority vote (excluding the meeting member with the potential conflict of interest) whether the relevant member or Invitee has a real or perceived conflict of interest and whether that member or Invitee shall be excused from the deliberations on the conflict of interest. The Committee/BOD shall review all actual or potential conflicts of interest with the designated legal counsel.

### 11. Investment support (US$3.5 million)

To provide an incentive to partner fund managers and co-investors to invest in innovative startups and early stage SMEs the ISSF will provide partner funds, in addition to capital, an amount (non-reimbursable) to cover:

a. Costs related to supporting the innovation of the startup post investment.
b. Post investment activities may include professional financial, legal and administrative costs to register/maintain/update patents, field testing of a product in a new market.
c. Back office support (Accounting, legal, marketing, administration) which small companies usually do not have.

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Fund managers applying for a capital investment or co-investment from the ISSF must present a proposal providing the rationale for the costs based on:

a. their investment strategy,
b. company stage,
c. industry,
d. type of innovation
e. investment size.

Amount provided will be subject to review by the IC and based on the availability of funds.

### 12. Project funds under the Deal-flow creation component

Those funds will support 3 tiers of entrepreneurship, and help create additional angel investors. Under this activity, the ISSF will support 825 entrepreneurs/SMEs, as well as intermediaries and networks dedicated to improving the quality and quantity of deal-flow in Jordan and bring 125 viable deals to the financing stage. The total budget of proposed activities is US$6.25 million, which will be implemented over the time frame of the project.

Table 1.2: Deal flow creation activities and estimated budget over the project life (6 years)

| Nature of support | Ecosystem element | Target | US$M |
|---|---|---|---|
| **Incubation/Acceleration programs** | Deal flow (startups) | New entrepreneurs and teams with promising concepts across industries and governorates seeking to start a company. | 2.5 |
| **Investment readiness training and BDS grants for established high growth potential SMEs** | Deal flow (existing businesses) | Established SMEs who may undertake a growth event and needs to prepare for seeking investment. | 2.75 |

| | | | |
|---|---|---|---|
| **Angel investment capacity building** | Ecosystem building/deal-flow | Building knowledge, investment capacity and involvement in angel investment activity | 1.0 |

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

Table 1.3: Targets of SMEs/entrepreneurs and entities receiving support under each program

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

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

### 13. Incubation/Acceleration programs (US$2.5 million):

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

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

a. Organize competitions and give prizes to best in class innovative concepts and ideas
b. Organize entrepreneurship awareness activities (e.g. boot-camps, hackathons) to attract aspiring entrepreneurs to apply for the acceleration programs;
c. Assign coaches and mentors to advise entrepreneurs on developing their business models and business plans, with milestones for monitoring progress;
d. Provide specialized training (professional) to selected entrepreneurs. The objectives of this training is to help participants in launching their businesses, and in realizing minimum-viable products;
e. Where appropriate, lease a co-working space for entrepreneurs. It should include desks, working

chairs, phone lines, and high speed internet connection;

f. Organize networking events for entrepreneurs, which will aim to establish networks with industry leaders and suppliers, interact with potential customers, participate at professional trade fairs and/or industry events;
g. Provide ongoing mentoring to a subset of the most promising teams from each cohort; and
h. Provide periodic follow-up reports to measure the achievement of selected projects.

Eligible acceleration programs should have the following minimum qualifications:

a. Demonstrated practical experience in developing and managing cohorts of entrepreneurs through business incubation/ acceleration process;
b. Robust acceleration methodology and approach, and practical experience in developing and conducting entrepreneurship training;
c. Strong online marketing experience using paper, electronic, and social media;
d. General understanding of monitoring and evaluation methodologies and the ability to conduct/assist in data collection and analysis;
e. Wide demonstrated network of experts/ industry leaders to engage in the process as mentors and coaches; and
f. Registered as a company in Jordan, with favorable regional/ international affiliation to entities of solid experience in entrepreneurship development.

14. **Investment Readiness and business development support for young ventures seeking capital and established SMEs looking for funding to substantially increase growth (US$2.75 million).**
The Investment Readiness Assistance (IR) will target 600 young companies (up to 3 years of age) that may already have been through an incubator or accelerator, or may just have started operations. They often still face barriers and capability gaps that stop them from being investible, however if these were addressed then investments will probably follow (this process is called 'scrubbing' to 'clean' ventures up).

The IR training will be delivered through a structured program.

In addition to lectures, the training methodology elements are expected to include individual and group exercises, local and global case studies, guest speakers, facilitated group discussions to encourage peer to peer learning, networking events, and mentorship and coaching (face to face and online). The training will be conducted on a monthly basis and target 8-15 businesses each time. The selected IR provider will be expected to provide the following activities:

a. Prepare an inception report describing all envisioned implementation details.
b. Prepare eligibility criteria for the program (in consultation with ISSF).
c. Develop training materials to support the fulfillment of the IR training objectives (trainers' manual and presentation deck).
d. Conduct info sessions to guarantee take-up (in consultation with ISSF).
e. Prepare and update an online website for applications (if they do not already have web presence).
f. Screen applicants and check that they comply with the eligibility criteria.
g. Provide and supervise coaches/ mentors to support the development of growth plans.
h. Organize a graduation day for each training, where participants present there project concepts

and growth plans to a panel of experts/investors.

i. Recruit and attract local, regional, and international investors to graduation days.
   i. Evaluate the IR training program, and provide evaluation results for every training.
   ii. Prepare the logistics for the various events.
   iii. Prepare a final report describing all implementation details, including overall evaluation of the IR training.
   iv. Collect the data required to conduct ongoing monitoring.

**Eligible ecosystem provider implementing the IR programs must have the following qualifications:**

a. Extensive experience designing and delivering IR training programs for young firms (Note: Experience adjusting and implementing IR programs for developing countries will be highly valued.)
b. Capacity to deploy the program in Jordan (for example, availability of a large pool of highly qualified mentors willing to travel, connections in the region such as local partners who can help implement the program, and so on).
c. Capacity (with ISSF) to contribute to developing a network of local and international investors for the pitch events.

## 15. The Business Development Services (BDS) program

This will support the growth plans of individual existing SMEs, which require specific assistance to become ready/eligible for equity or quasi-equity investment through the ISSF.
Approximately 75 SMEs will be targeted over the timeframe of the project. Diagnostic assessments for eligible/interested SMEs will be undertaken, and these will then be used to guide the most prospective SMEs to value added business services. The ISSF will cover up to a total of US$20,000 per beneficiary SME support.

**Eligible activities under the Business Development element will include:**

a. Strategy and business planning, finance raising, corporate governance (i.e. organizational structures), succession planning, mentoring;
b. Marketing and communication strategies, including branding strategies and social media/digital strategies;
c. Production process improvement, technology upgrade;
d. Strategic Intellectual Property (IP) plans, diversification and product/service innovation and development, Research and Development planning;
e. Identification of new markets, sector analysis and market development, export strategy, including compliance with foreign laws and regulations; and HR strategies and systems, training and upgrading.

**Eligible BDS providers:**

The provider implementing the BDS activities must be registered in Jordan as a company, with at least 3 years of experience in offering business services to local SMEs (track record required), and technically qualified to offer required business development services. BSPs should fulfil the criteria below:

a. Experience in managing grant programs and processes, either for government or for overseas organizations within Jordan; and
b. Capacity and systems to deliver the BDS grants program, including national reach, with the

characteristics, application, administration, and follow-up activities described as follows:

i. Knowledge of and connections into Jordanian entrepreneurship ecosystem;
ii. Linkages with angel investors and angel/seed funds engaged under ISSF;
iii. Awareness sessions on the initiative for stakeholders, marketing, and fact sheets;
iv. Development of application process and online forms ;
v. Assessment, initial check of application for compliance, process for distributing to assessors (discussed earlier), ranking system;
vi. Approval process for making final approval/denial; and
vii. Assistance, payment process for successful applicants, feedback for unsuccessful applicants, project reporting, and completion (spot audit).

**The review and selection of entrepreneurs and SMEs who will participate in the acceleration, IR, and BDS program**

1. Selected professional service providers will be required to ensure that the application, dispersal, and audit—are rigorous, but also simple and quick, for the beneficiary.
2. The review process should be transparent and independent of the Government**.** The review process must utilize an independent Evaluation Committee set up by the selected service provider, composed of existing entrepreneurs and other private stakeholders, including the diaspora, who are knowledgeable about entrepreneurship and have experience in various industries. The development of this network will be an ongoing resource for the initiative and the broader ecosystem. Both successful and unsuccessful applicants will be referred to existing entrepreneurship support initiatives and institutions for other assistance. Unsuccessful applicants should receive feedback on why their application was not successful and whether, in the view of the assessor, it can be improved.
3. Due diligence and reporting on activities and costs should be simple and clear so as not to discourage applicants.

## 16. Selection Criteria for Acceleration, IR, and BDS beneficiaries

**Applications should be assessed against the following broad categories, recognizing that the early-stage nature of these ventures will mean that assessments are based mainly on judgements about the applicants and their teams rather than on empirical data.**

1. **Could it work.** Will the innovative technology or approach do what is claimed and be produced to sell to a market?
2. **Could it sell.** Are there sufficient customers who would be interested in buying the product or service because it offers performance, cost, or other benefits compared to those of current products or market competitors?
3. **Can it scale.** Does the business model offers the opportunity to scale rapidly?
4. **Could it be profitable.** Can the product or service be made or delivered at a price that will cover all its costs as well as profits to offer an attractive return to the financial investor?
5. **Could it be done.** Does the team that the entrepreneur has assembled with the right skills and personal strengths of persistence and determination to build a successful business and realize the value contained in the business idea?
6. **Is it viable.** Does the proposed expenditure within the project make sense and represent ‘value for money’ (for example, proposed consultancies were in scope, and salaries and wages were sensible)?
7. If the project is successful, will the venture be a potential investee for the seed funds?

17. **Development of the Jordanian business angel network.**

The proposed business angel support will entail a suite of services to develop at least two angel groups. The package of assistance may include the following:

1. New group formation;
2. Network design and establishment (for example, budget, network manager recruitment, deal sourcing processes, investment criteria, standard documentation, and public relations);
3. Group manager training and mentoring;
4. Angel member training and mentoring;
5. The project may also support system-level activities benefitting all Jordanian angel networks, which may include:
    i. Development of common documents and guidelines;
    ii. Advice and documentation on investment instrument appropriate for the Jordanian market (standard equity, quasi-equity, revenue share agreements or guarantees, and so on);
    iii. Advice on relevant regulatory reform;
    iv. Diaspora investing/intergroup investing/sidecar funds; and
    v. Learning and networking with overseas angel investment experts.

The package will aim to develop individuals and groups of angel investors who could then be 'qualified' co-investors to the ISSF, so the accreditation methodologies for both should align.

***Reporting***

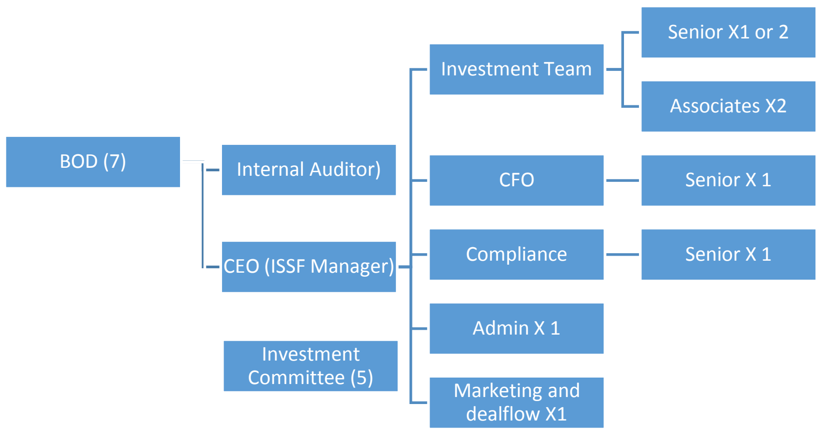
The ISSF will receive regular reports on the performance of the programs in the form of management reports, which will include updated project indicators based on the project results framework and M&E requirements, as described in the M&E section and Annex.

Professional service providers will also provide reports to the ISSF on FM and safeguards screening and management in accordance with the criteria described in the sections on safeguards and FM in the POM.

18. **Project Management ($US2 million Bank Loan/total budget $US4 million**

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

The Project management costs shall cover reasonable incremental expenses incurred on account of Project implementation by ISSF and JLGC, management and monitoring, including office supplies, the cost of publication of procurement notices, vehicle operation, office and equipment maintenance and repair, communication, translation and interpretation, travel and supervision costs, and other miscellaneous costs directly associated with Project, as determined by the WB but excluding salaries of civil servants and employees of the Borrower or the Project Implementing Entity. Project Costs s will also support the ISSF's costs for the following: training/capacity building activities; marketing; conducting ecosystem assessments/analysis and setting up a coordination mechanism among related national and international programs, outreach specifically to the regions (website, conferences); citizen's 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, and conducting the necessary fiduciary and safeguards supervision including redress grievances. Costs incurred by the JLGC include the hiring of a consultant at the JLGC to ensure proper project reporting is transmitted by the JLGC to MOPIC and the World Bank.




### 3.10 Matrix of responsibility by component

A detailed matrix demonstrating the responsibilities by component will be developed by the ISSF manager once the ISSF is operational.

<u>Figure 1.1: Indicative ISSF Investment process</u>


*This is indicative and the team who runs ISSF will need to adapt and adjust once the ISSF is operational

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

### 3.11 Budgeted Work plan for the first 18 months of the project

An 18-month budgeted work plan is detailed in annex 6 of this POM

# PART 4 MONITORING AND EVALUATION

1. **The Operational Aspects of the M&E Framework**
   The ISSF management will be required to prepare semiannual and annual project monitoring reports, containing summary data on overall performance against targets; as well as annual M&E reviews including citizen's engagement to ensure the M&E function enhances the ability to increase project outcomes.
2. **Monitoring and Evaluation mechanism**
   The Project's M&E framework shall follow international best practices and particularly rely on two pillars:
   1. Results indicators; the Results Framework builds on the core indicators and the intermediate results sought from each component. It includes indicators in leveraging private sector investment in Seed, early stage and venture capital and the impact of the project on start-ups and early stage enterprises in terms of their access to finance and growth; as well as indicators link to activities to develop the ecosystem. **Results framework and indicators are all included in** Annex (1)

   2. A survey assessment of Component 1 investment strategy and performance of investee companies; the assessment of the investment strategy and firm performance will be based on information gathered from beneficiary firms (e.g. revenues, operating margin, employment, exports, etc.). See questionnaire in Annex 2 for reference.

For information purposes and as part of the broader M&E framework, the project will track the number of displaced legal residents (including those with work permits) currently living in Jordan that benefit from the project either as entrepreneurs or through jobs created through the project.

3. **Data collection and reporting**

   1. The ISSF has the primary responsibility for tracking results of end beneficiaries, funds and intermediaries in accordance with the Project Results Framework and M & E guidelines specified in Annex 1.
   2. In the case of Funds and ecosystem providers they will be required to include in their proposals to the ISSF for funding the mechanisms that they will use to conduct M&E.
   3. Funds and ecosystem intermediaries will present an M&E report twice a year to the ISSF.
   4. The ISSF will be responsible for submitting a consolidated M&E report to the World Bank once a year. Results monitoring will be based on qualitative and quantitative information collected from project beneficiaries, investors, and fund managers. The World Bank can provide M&E training to the ISSF and intermediaries as needed.
   5. The ISSF should measure indirect jobs and monitor the results to the extent possible.
   6. The ISSF should track the entrepreneurs and/or investors from the legal Syrian refugees community that the project draws
   7. The primary responsibility for tracking results is with the Financial Intermediaries and Ecosystem Support Providers implementing the activities. They will present an M&E report twice a year to the ISSF at the JLCG.
   8. The ISSF will be responsible for submitting a consolidated M&E report to the WB also on a semi-annual basis. Results monitoring will be based on qualitative and quantitative information

collected from Project beneficiaries, investors and fund managers. Fund Managers and firms that receive financing from the project funds as well as those benefiting from the ecosystem support activities will be obliged in their contracts to provide information twice a year.

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

## 4. Program Evaluation

The 3rd level of evaluation will be on the performance of the seed, early stage and VC funds' management.

There will be two overall evaluations (reports) of the program, one at the end of three years and one at the end of the project (six years). These two reports will be led and funded by the Project. The reports will evaluate the efficiency and effectiveness of the program's management and design. The use of survey instruments appears to be an appropriate choice for the purpose of this project. Specific questions and the format of the questionnaire will be further discussed and determined with an evaluation expert. As an example, the following boxes present typical questions normally used to conduct evaluations of innovation financing programs.

*Box 1.1 Beneficiaries and Potentially Identified Non-Beneficiaries Survey (example template)*

Basic Information

1. Name of the beneficiary/non-beneficiary
2. Nationality/residency status
3. Date established
4. Sector
5. Stage of development
6. Characteristics of the firms

Topic I. Efficiency of the submission process

1. Is the submission of a proposal for funding an easy procedure?
2. Is the amount of information requested reasonable?
3. How many days does it take to fill the documentation?

Topic II. Transparency of the selection process

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

Topic III. Effectiveness of the support

1. Financial support
    (a) How much money did you receive from the fund? (please describe per round)
    (b) Is the financial support enough for the activities you want to finance? Why?
2. Nonfinancial support

(a) Do you receive nonfinancial support (for example, advisory services)?
(b) Which type of support?
(c) Is this type of nonfinancial support useful?
  (i) What have you learned?
  (ii) What capabilities have you developed as a consequence of the investment that you would not otherwise know?

Topic IV. Efficiency of disbursement (only for beneficiaries)

1. Is the process to request the funds easy? (Yes/No)
2. Is the amount of information requested reasonable?
3. How many days does it take you to fill the forms?
4. Is the time between the submission of the request and the disbursement of the money reasonable?
5. Did you stop any activity because the funds didn't arrive on time?

Topic V. Efficiency of project reporting (only beneficiaries)

a. Do you consider project reporting reasonable? (Yes/No, explain)
   (a) Amount of information
   (b) Quality of information
   (c) Frequency

Topic VI. Signs of additionality

1. What is the likelihood of raising capital in the absence of support?
   (a) Very good
   (b) Good
   (c) Poor
   (d) Don't know
2. Beneficiaries: What would be the consequences if you had not received the financial assistance? You can select more than one option.
   (a) I would have gone ahead with my business in the same way as if I had the financial assistance.
   (b) I would have gone ahead with my business in a reduced scope, for example, hiring few workers.
   (c) I would have gone ahead with my business in a reduced scope, for example, investing less in machinery and technology.
   (d) I would have gone ahead with my business in a reduced scope, for example, conducting less research and development (R&D) and innovation.
   (e) I would have gone ahead with my business in the same way as if I had the financial assistance.
   (f) I would have gone ahead with my business in a reduced scope, for example, hiring few workers.
   (g) I would have gone ahead with my business in a reduced scope, for example, investing less in machinery and technology.
   (h) I would have gone ahead with my business in a reduced scope, for example, conducting

less R&D and innovation.

(i) I would have gone ahead with my business in a reduced scope, for example, not entering into new markets.

(j) I would have gone ahead with my business but it would have taken more time to have access to the market.

(k) I would not have gone ahead with my business.

3. Applicant non-beneficiaries: What were the consequences of not receiving the financial assistance? Select the correct option:

   (a) I went ahead with my business in the same way as if I had the financial assistance.

   (b) I went ahead with my business in a reduced scope, for example, hiring few workers.

   (c) I went ahead with my business in a reduced scope, for example, investing less in machinery and technology.

   (d) I went ahead with my business in a reduced scope, for example, conducting less R&D and innovation.

   (e) I went ahead with my business in a reduced scope, for example, not entering into new markets.

   (f) I went ahead with my business but it took me more time to have access to the market.

   (g) I didn't go ahead with my business.

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

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

*Box 1.1. Investor's Survey (example template)*

Basic Information

1. Name
2. Nationality
3. Country of residence

Topic I. Participation in the fund

1. What were the main reasons that encourage you to invest in the fund?
   (a) Sharing risk
   (b) Increasing investment size
   (c) High expected returns

Topic II. Fund management

1. What do you think about the overall management of the fund? (Assign a number from the scale of 1 to 5 with 1 the lowest performance and 5 the best performance.)
   (a) Transparency
   (b) Efficiency
   (c) Effectiveness
   (d) Coordination among investors
   (e) Communication with investors

Topic III. Investment portfolio

1. Do you agree with the way the investment portfolio has been managed? (Assign a number from the scale of 1 to 5 with 1 meaning “I don’t agree” and 5 “I totally agree”.)
    (a) Size
    (b) Risk
    (c) Return
    (d) Diversification
    (e) Sectors
    (f) Stage of development of the investee
2. Would you change something about the investment strategy? (Please specify.)

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

1. Are you satisfied with the average IRR?
2. What do you think about the exit strategy?
    (a) Timing
    (b) Mode

Topic V. Signs of additionality

1. What would be the consequences if the public sector wouldn’t have created the new financing facility?
    (a) I would have gone ahead investing in the same way as if I have the public sector as a co-investor.
    (b) I would have gone ahead investing but in a reduced scope.
    (c) I would have gone ahead investing but taking less risk.
    (d) I would have gone ahead investing but looking for higher internal return rates.
    (e) I would have not gone ahead investing.

*Box 1.2. Program Manager’s Survey (example template)*

Basic Information

1. Name

Topic I. Identifying investment opportunities

1. Does the fund proactively search/identify investment opportunities?
2. Is there a good pipeline? Why?

Topic II. Selection process of beneficiaries

1. What are the criteria that the fund takes into account to make an investment?
    - Risks
    - Expected returns
    - Management team
    - Other (please specify)
2. How long does it take to conduct the due diligence process for an investment?
3. How long does it take between a beneficiary requests the funding and he or she gets it?

Topic III. Financial support

1. How many deals does the fund make per year at each stage (for example, start-up, early stage, VC)?
2. What is the average size of each deal at each stage?
3. Is the fund's performance in terms of deals and average size of the deals in line with (a) what was originally expected and (b) similar private funds? (Yes/No, why?)

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

1. How long (on average) has the fund invested in each company at each stage?
2. Is this a long enough period to obtain the expected returns?
3. What is the IRR (on average) at each stage?
4. What kind of exit strategy does the fund usually prefer? Why?

### 5. Citizens/Client Engagement plan

As part of citizen engagement activities, the ISSF will be responsible for the implementation of a minimum of two beneficiary satisfaction surveys to solicit feedback from project beneficiaries on services received and performance of partner funds and ecosystem intermediaries.

# PART 5 PROCUREMENT

### 1. Procurement principles

The implementing agency JLGC general assessment determined that established procurement of this institution follows the core procurement principles as defined by the World Bank. The project will trigger Bank's procurement Framework only for the setting of the ISSF in terms of appointing a manager of the ISSF who will appoint the team, as well as purchase of simple office supplies and equipment for the ISSF to make it operational.

### 2. Proposed Procurement Strategy/ Arrangement

a. Procurement regulations: For the procurement of Goods, Works, or Non-Consulting Services. The following Bank's Core Procurement Principles are the standard for determining the acceptability of Commercial Practices: value for money, economy, integrity, fit for purpose, efficiency, transparency and fairness.
b. The project procurement activities are by nature not sophisticated. JLGC is expected to cause the ISSF to select a manager for the ISSF, by selecting a project manager who will be appointing a team. In addition, purchase of office supplies and furniture will be incurred as needed by the ISSF.
c. Staff: The procurement function for the hiring of the ISSF manager and services related to the role of JLGC as implementing agency is assigned to the Procurement Specialist in JLGC. Procurement qualifications align with the current position requirements. Technical support of JLGC shall be needed for assisting the procurement staff in the evaluation and selection of ISSF manager and team members. The implementing agency shall be liable in managing the contracts of the ISSF manager and ISSF team. Alternatively, the implementing agency may choose to delegate the contract management of the ISSF members to the ISSF manager.

d. Frequency of supervision mission and post procurement review is foreseen respectively twice and once yearly.
e. Procurement methods for goods, non-consulting service and consulting services will follow the following practices:

## 3. Procurement policies and procedures

These policies and procedures specify purchase authority limits and determine the policies and procedures that should be used in purchasing goods, services and fixed assets for the ISSF and for recording corresponding liabilities for payment.

Policies:

a. A pre-numbered Internal Purchase Requisition (IPR) should be used for each request of goods and services that exceeds $100.
b. The Administrative Department, at the beginning of each calendar year, should perform an annual tendering for ISSF recurring purchases, such as fuel, stationary, office supplies…etc.
c. Access to the electronic data vendor master file on the Financial system (ERP) software should be monitored by the CFO and should be authorized to specific employee in the Financial Department. Any change to the master file should be approved by the CFO. Special forms could be used for this purpose.

Procedures

List of Approved Vendors

1. An approved list of vendor should be prepared and maintained by the Administrative Department at the beginning of each year.
2. The approved list of vendors should be compiled of ISSF regular purchases and should be developed based on tenders performed annually to identify least prices and best qualities.
3. The Administrative Employee should maintain files for the approved vendors. The files should contain price lists, available services, products and specifications, supplier experience with the related products, and history of dealings with the ISSF.

Process:

1. The requesting department/ administrative employee should submit Internal Purchase Request (IPR) to the CFO to proceed with the procurement process.
2. The IPR should be pre-numbered by the Administrative Employee and should be recorded in a special IPR register, which should be maintained at the Administrative Department.
3. The Administrative Department should check whether the requested purchases are available at ISSF, and if not, the Administrative Employee should send the IPR to the CFO for review and approval.
4. The CFO and Administrative Manager should approve the IPR after assessing the requesting department's need of the purchases and whether there is available budget for the requested purchases.
5. After being approved by the CFO and Administrative Manager, the IPR should be endorsed by the CEO (ISSF manager) and then submitted to the Procurement Department in order to select the appropriate procurement method and determine the required procedures.
6. The Procurement Department should study the IPR and select the appropriate procurement method, in accordance with the following table:

Procurement Methods: The methods are as per below thresholds:

Table 2.3: Procurement methods

| | |
|---|---|
| 3 quotations | For up to JD 10,000 |
| Bidding | For above JD 10,000 |

7. The Procurement Officer should prepare the necessary documents, in accordance with the method selected.
8. If the tender method is selected, the Administrative Department should obtain the Procurement Department assistance in regard to the best tendering and procurement procedures to follow.
9. The Administrative Employee should follow and monitor the procurement process until the goods or services are delivered by the vendor.
10. A receiving report should be prepared for all received purchases as follows:
    a. When purchases are equal or below $1,000 the receiving report should be prepared and signed by the requesting department and the Administrative Department.
    b. When purchases are more than $1,000 a special receiving committee should be formed by the CEO and should include at least 4 persons from the Financial Department, Procurement Department, Requesting Department and someone who has technical knowledge of purchases. The Internal Auditor may attend the receiving process to ensure that proper receiving procedures are followed. The receiving report should be prepared by the Administrative Department and signed by the receiving committee.
11. The receiving persons/committee should verify the quality and quantities received and should reconcile the quantities with the purchase request, the purchase order, the tax invoice, and the contract, if any.
12. The Administrative Department should send the purchasing documents (IPR, purchase order, quotations/tenders evaluation report, vendor tax invoice, and the receiving report) to the CFO for reviewing, recording, approving and for preparing the payment.

4. **Procurement related to the Project components:**

(a) Component 1, shall finance the following:

- **US$53.5 million (of which US$44.75 million is World Bank financing) in Equity/quasi equity financing**. Under this activity the ISSF is expected to invest in approximately 200 companies balanced between the three high risk enterprise stages roughly categorized as: Seed (investment ticket size (ITS) US$50,000 – US$280,000); early stage (ITS US$280-000 – US$750,000); and VC (ITS US$750,000 – US$2 million). The transactions of this component will not trigger the Bank's procurement framework.

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

(b) Component 2, shall finance the following:

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

(c) Component 3, shall finance the following:

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

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

**Table 2.1. Decision Authority**

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

- Grievance Redress

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

# PART 6 FINANCIAL MANAGEMENT

*The Chapter will be reviewed by the project financial management staff from both the JLGC and ISSF, once they are hired, and any revisions to the FM Chapter during that period or following during the implementation will be presented for approval by the World Bank.*

Introduction

This chapter of the POM sets the detailed guidelines for the Financial Department and its employees to assist them in ensuring the orderly and efficient management and control of all program resources, and to render proper accountability to all stakeholders.

## 1. Internal Control Framework

Appropriate measures of internal control should be adopted to improve the dependability of accounting records. The internal control framework of ISSF will follow the Committee of Sponsoring Organizations of the Treadway Commission (COSO) integrated framework. Mainly, these measures must include, but not limited to:

a. An organization plan to provide, to the extent feasible, segregations of duties for different employees to handle the authorization, custodial and accounting functions;
b. A system of authorization and recording procedures adequate to provide reasonable accounting control over assets, liabilities, income and expenses;
c. policies and procedures that will enhance the corporate governance practices and assets safeguards;
d. The employment of personnel skilled and capable of executing duties and responsibilities;
e. An internal audit function to conduct reviews and assessments of the activities, operations, financial systems, performance audits and internal accounting controls of the ISSF.

## 2. Basis of Accounting

The ISSF will adopt either a Modified Cash Basis or Accrual Basis of Accounting, to reflect the nature of the project activities carried out by ISSF and simultaneously uncover the dues from and to other parties (current receivables and payables) at the reporting date. However, per the financial reporting requirements under the financing agreement with the World Bank, the financial reporting to the World Bank will be based on the cash basis of accounting. To achieve both purposes, a reconciliation will need to be made between both internal and submitted reports to the World Bank.

The modified cash basis is an accounting method that blends elements of the two major accounting methods, the cash method and the accrual method. The cash method recognizes income when it is received and expenses when they are paid, whereas the accrual method recognizes income when it is earned (for example, when the terms of a contract are fulfilled) and expenses when they are incurred.

There are no exact specifications for what is allowed under the modified cash basis, since it has developed through common usage. If the modified cash basis is adopted, transactions should be handled in the same manner on a consistent basis, so the resulting financial statements are comparable over time. Regardless of the accounting basis selected, the ISSF will need to be in compliance with the International Financial Reporting Standards will need to be followed.

## 3. General ledger

The general ledger is a comprehensive record of individual accounts on the chart of accounts. The chart of accounts is a listing of general ledger account numbers and account names. The general ledger accounts contain entries pertaining to a specific asset, liability, funds available (surplus/deficiency), income, or expense. The accounting systems shall enable printing various levels of details for general ledger reports. Subsidiary ledgers and account reconciliations support the general ledger.

### 4. Subsidiary Ledgers

Subsidiary ledgers store the details of certain general ledger accounts. Subsidiary ledgers support general ledger accounts. Use of subsidiary ledgers may reduce the number of general ledger accounts.
The fewer the number of accounts, the easier it is to avoid errors and find them when they occur.
Subsidiary ledgers are often set up for loans, cash, investments, prepaid expenses, fixed assets, income, and expenses. The better the system of organizing account details in subsidiary ledgers, the easier it is to avoid errors and identify them as they occur.

### 5. Special Purpose Audit

A consultancy firm will be hired by the ISSF, or the external auditor's scope of work will be expanded, to perform annual "Agreed Upon Procedures (Review)" of beneficiary (seed, early-stage, VC, start-ups, accelerators, angel networks, crowd funding platforms, and the like) or the external auditor's scope of engagement will be extended to cover this assignment. The main purpose of this review is to provide an opinion on the compliance of ISSF to make investments based on the approved selection criteria, due diligences carried out, and the investment exit methods applied. The Special purpose review will also report on the effectiveness of the internal control system related to the financial transactions and financial reporting.
The ISSF shall develop its own version of the TOR, it must be reviewed and approved by the World Bank prior to hiring a consulting firm or extending the external auditor's engagement scope.

### 6. Risk Mitigation Measures

The following measures are proposed to mitigate FM-related risks are to be implemented in order to guarantee that funds are disbursed in accordance with loan agreement or towards the project purpose or not reach targeted end beneficiaries. :

1. A qualified and competent Chief Financial Officer (CFO) will be hired by the newly established ISSF to handle the day to day recording, disbursements and transfers to other entities, as well as maintaining maintain the Designated Account, submit the withdrawal applications and Interim Unaudited Financial Reports (IFRs) to the World Bank in a reliable manner.
2. The flow of funds process will be undertaken by JLGC through a Designated Account (DA). A subaccount in Jordanian Dinars will be opened and maintained by the ISSF;
3. JLGC will hire a senior accountant for managing the (DA) and financial reporting within JLGC and to closely monitor the project implementation, including FM and disbursement activities, and standard supervision of ISSF's sustainability of operations;
4. The ISSF function and operations will be for no other purpose than to invest in (and conduct related exits) and hold the equity investments as selected by the Investment Committee.
5. Project activities will be co-financed by the World bank and the Central Bank of Jordan, and the accounting system will capture the respective financing percentages for a double fold purpose: i) forecast required cash withdrawals from the co-financiers; ii) avoid double payments for the same activities from both fund sources.
6. An independent investment committee, will be established, consisting of independent investment experts in the field of entrepreneurship and will be deciding on the beneficiaries for the equity investments component based on the financial analysis conducted by ISSF and the

selection criteria listed in Annex 4 . This will also include the investment committee to set the investment and exit strategies.

7. Acceptable accounting system will be purchased and used by ISSF to capture the financial transactions and generate the quarterly IFRs;
8. ISSF will generate and submit quarterly IFRs on the equity investments and other project related activities to JLGC for consolidation with the project activities that are carried out by JLGC for quarterly submission to the World Bank;
9. Simple FM assessments will be conducted for support providers to ensure they maintain acceptable FM systems are available;
10. ISSF will hire an internal auditor who will be reporting to the Board of Directors during the first year of project implementation. The terms of references (TORs) of the internal auditor should be acceptable to the World Bank and submitted by project negotiations. The internal auditor will also work in coordination with the compliance officer of ISSF. The loan proceeds will cover the costs of the internal auditor.
11. A consultancy firm will be hired by the ISSF, or the hired external auditor's scope will be expanded, to perform annual "Agreed Upon Procedures (Review)" of beneficiary (seed, early-stage, VC, start-ups, accelerators, angel networks, crowd funding platforms, and the like).

## 7. The Financial Department Organization

The financial department at ISSF will not be of a large size, a financial admin, one or two accountants and a CFO will be handling the tasks of the department including all those tasks usually assigned to a financial controller and a budgeting and financial planning specialist. The CFO with the approval of the ISSF CEO increase the staffing of this department as needed.

Within ISSF The financial department will be interacting with the administration department, the internal audit function, the investment team and will report to the CEO (ISSF manager)

Following are the policies and procedures for the financial management functions.

## 8. Budget

I. Budget Preparation

Policies

1. The budget shall cover both operating expenditures of the ISSF staff as well as investments and investment support funding.
2. Budgets should be prepared on annual basis but analyzed by quarter.
3. The Budget should be initially prepared by the CFO in coordination with the Investment team and the to appreciate the available funds and potential proposals pipeline.
4. The CFO, is responsible for collecting the needs from the department's heads for the ISSF operating budget. Further, s/he is expected to get all the needed information from the investment team of the ISSF. Accordingly, this will enable him/her to prepare the first draft of the annual budget.
5. The CFO will prepare and propose the budget to CEO

6. The CEO is responsible for proposing a budget to the Board of Directors.
7. The Board of Directors is responsible for approving the budget.
8. The CEO, with the assistance of the CFO, is responsible for administering the budget and ensuring that funds are received and disbursed in accordance with the budget.
9. The CFO is responsible for recommending actions through the ISSF team and investment committee to ensure compliance with the budget.
10. The CEO is responsible to keep the Board of Directors informed of patterns of income and expenditures and their relationship to the budget.
11. The CEO is responsible for recommending actions to the Board of Directors to ensure compliance with budget or propose modifications if warrants.
12. The Board of Directors is responsible for monitoring compliance with the budget, in order to formulate directives to the CEO to ensure compliance, and for making modifications, as needed.

Budget analysis

1. Within ten days after the end of each Quarter, a written budget analysis shall be performed consisting of the following elements:
    a. Actual income and expenditures will be compared to budgeted amounts; both for the current month and for the year-to-date
    b. Significant variances will be noted and their causes determined.
    c. Recommended actions to ensure budget compliance for the remainder of the year will be set forth.
2. The CEO will forward the quarterly budget analysis, in whole or in summary, to the Board of Directors along with recommended actions, if necessary.

**Budget modification**

The budget may require modifications during the course of the year. When changes take place, the CEO should present a report indicating the significant changes in the facts or assumptions underlying the current budget. If appropriate, the CEO should propose modifications in the budget to the Board of Directors.

Procedures

1. The CFO should prepare budget format, templates and budget procedures.
2. The first step in preparing the budget would be identifying the expected funding proposals. In relation to that, management should prepare the budgeted income. Budgeted income is mainly dependent on the disbursed (and remaining) amount from the WB loan in the designated account (DA) of JLGC. Accordingly, it is based on the budgeted project activities and the related disbursements to the approved financing and funding proposals and the expected pipeline. This Budget should be initially prepared by the CFO in-coordination with the investment team. Furthermore, the budget should be prepared using the Interim Financial Reporting (IFR) forms.
3. The CFO should prepare the revenues budget according to calculated management fees and then s/he should communicate the following with all departments:
    a. Budget procedures
    b. Budget Formats and templates
    c. Timetable and Key Dates
    d. Budget constraints

4. Each department head should complete the assumptions and templates within the stated timetable taking into consideration constrains provided, and then prepare the budget and sub-budgets for the department based on assumptions and technical aspects of that department.
5. After communicating the CFO comments and agreeing adjustments, each budget owners/departments heads should sign on the detailed budgets and assumptions.
6. The CFO signs the signs off the budget for completeness and accuracy and correct consolidation if necessary, and deliver it the CEO for approval, who then takes it for the BOD approval. Once the budget is approved by BOD it is then communicated to the all departments.
7. The accountant should prepare monthly comparison between the actual and budgeted amount, and submit it to the CFO who should:
    a. Identify key variances against budget and forecasts by comparing actual performance reported with budget KPI's
    b. Investigate all key variances,
    c. Substantiate with justifiable reasons,
    d. Ensure corrective measures in place to bring actual performance in line with financial targets and/or manage risk.
    e. Communicate the variance report with the CEO who will communicate it to the BOD

## 9. CASH FORCASTS:

<u>Policy</u>

Cash forecasts should be prepared on consistent basis to monitor and manage borrowings and idle cash.
Cash forecasts is the responsibility of the CFO, and should be reviewed and approved by the CEO
Cash forecasts should be prepared by the Accountant on a semi-annual basis i.e. (six months period), and should be submitted to the World Bank alongside the interim Unaudited financial reports (IFRs).
The Board of Directors should be updated of the cash status every BOD meeting, and when the shortage or idle cash is material.

<u>Procedures</u>

b. The Accountant should generate from the accounting system all information necessary to determine and identify cash sources as well as cash collection (if any) with due dates. Such cash sources include accounts receivable collections, loan amount transfers and bank interest income.
c. The Accountant should generate from the accounting system all information related to cash requirements and cash payment dates. Such requirements include accounts payable to vendors, payrolls, and all other payments.
d. The Accountant should compare the information to prepare cash forecasts and submit it to the CFO, who will verify that the information is internally consistent and perform the following checks:
    (a) Identify key variances against forecasts by comparing actual performance reported with budget KPI's
    (b) Investigate all key variances,
    (c) Substantiate with justifiable reasons,
    (d) Ensure corrective measures in place to bring actual performance in line with financial targets and/or manage risk.
    (e) Communicate the variance report with the CFO
    (f) Manage cash accordingly

## 10. Cash Management

The purpose of this section is to set policies and procedures for the ISSF's cash and bank accounts. These policies and procedures aim at ensuring that cash and bank transactions are based on proper authorization, as that they are properly controlled and monitored, and that they are properly classified in the accounting records. Before listing the policies and procedure for cash management, the following paragraph provides a high level description of the flow of funds:

### I. Opening and Authorization of New Bank Accounts

Policy

**JLGC**

JLGC will be responsible to open a Designated Account (DA) at a commercial Bank accepted by the World Bank to process the flow of funds.

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

**ISSF**

1. The ISSF will be managing one bank account (The ISSF bank Account)
2. The ISSF Bank Account will receive the flow of funds directly from the CBJ and from the (DA) of the JLGC
3. Opening a new bank account for any purpose must be justified and recommended by the CFO and approved by the CEO and in all cases by the Board of Directors.
4. The CFO is responsible for cash management and proper maintenance of bank accounts.

Procedures

**JLGC**

1. Upon signing the Project and Loan Agreements, the JLGC Financial Manager should prepare and sign request for opening new bank account specifying the following:
   a. Agreement and purpose.
   b. The details of the new bank account, such as currency, name, and type of account.

The request letter should be approved by the General Director of JLGC

2. JLGC will transfer funds from the DA to the ISSF bank account based on periodic cash forecasts that will include among others the expected investment payments to be made during the foreseen period.
3. For expenditure documentation purposes, the World Bank will consider the investment certificates and transfer slips/ receipts as the basis for disbursement and proof for payments made to investees in return for equity/quasi equity shares.
4. DA Authorized signatories, names and corresponding specimens of their signatures will be submitted to the Bank prior to the receipt of the first Withdrawal Application.
5. The Ceiling of the Designated Accounts would be 10% of the Loan's amount.

**ISSF**

a. The ISSF CFO should prepare and sign a request for opening new bank to process the flow of funds from the CBJ and DA from the JLGC specifying the following:
b. Agreement and purpose.
c. The details of the new bank account, such as currency, name, and type of account.
d. The request letter should be approved by the CEO of ISSF and approved by the BOD.
e. Upon approval of the commercial bank by the World Bank, the Accountant should arrange with the specified bank to open the new account and should complete bank forms, provide check signing cards and other authorization and validation information.
f. The Accountant should open a new general ledger account on the accounting system immediately after the opening the account by the bank.
g. The Accountant should notify the CFO, who becomes responsible to notify the CEO and BOD.
h. Copies of all forms and letters should be maintained in a separate file in the Financial Department.

## II. Closing Bank Accounts

<u>Policy</u>

Only the Board of directors (BOD) has the authority to decide the closing of the bank accounts which were opened at the commercial bank.

The CFO of ISSF will monitor closely the transaction of each bank account on monthly basis and ensure proper management and maintenance.

<u>Procedure:</u>

If it is determined by the BOD of ISSF that there is a justified reason to close one of the tow accounts or both accounts at the commercial bank, then before starting the closing process, the following should be performed:

1. The Accountant should prepare a bank reconciliation for that account to determine outstanding checks and arrange payments,
2. The Accountant should invalidate all unused checks and handle them to the CFO
3. The CFO should ensure that all unused checks were accounted for using the serial numbers of used, voided and remaining checks handled to him by the Accountant, and return the checks to the bank.
4. The CFO should prepare a written request/bank account closing letter and send it to the CEO for approval. The following must be included in the request:
    - Bank name, address, bank contact and phone number.
    - Bank account number.
    - Disposition of closing bank balance and statement.
    - Approval by the proper personnel or donor, if needed.
5. The request letter should be approved by the CEO, and submitted to the ISSF Board of Directors for approval and further arrangement with the World Bank and CBJ.
6. Upon receipt of the properly authorized request, the CFO if requested, should notify and arrange with the bank where any remaining bank balance is to be transferred.
7. Once the account has been closed, CFO should notify the Accountant to deactivate the account in the general ledger.
8. A copy of such letter must be kept in a separate file in the Financial Department.

## III. Check Issuance, Wire Transfers, and Cash Disbursements

Policy

1. All manual checks must be requested and properly authorized on a Payment Request supported by original documentation and signed by authorized personnel.
2. All disbursements and payments above JD 100 should be paid by checks or wire transfer.
3. Checks should not be payable to the bearer nor signed blank and all checks should be stamped by "first beneficiary only".
4. The ISSF should use duplicated checkbooks that include original check and a copy containing payment voucher.
5. Original signatures must be evidenced on the check request. Failure to do so will result in the check request being returned to the requestor for correction.
6. Invoices cannot be subdivided and attached to separate check requests, unless approved by the CFO, in writing.
7. All check requests must be approved in conformance with the then current signature authorization matrix.
8. The approver on a check request should not be the payee of the check request; next level authorization needs to be obtained.
9. All employee reimbursements of that nature should be processed through the Employee Expense Reimbursement Process.
10. Failure to include this basic information on the original invoice will result in non-payment and the return of the invoice to the vendor.
11. Disbursement should be based on the approved budgets

Procedures

Operating Expenditures:

The operating Costs comprise of: reasonable and necessary operating expenditures incurred by the ISSF on account of Project implementation, management and monitoring, including office rental and maintenance; operation and maintenance of office equipment; stationary, office supplies and utilities; office consumables; office administration including translation, interpretation, printing and advertising, communication costs, costs associated with the production of bidding documents; reasonable commercial bank charges; reasonable and necessary transportation and travel costs of members of the ISSF, Investment Committee and of Grant Evaluators; fees related to the establishment and operation of the ISSF, maintenance, insurance and fuel of vehicles; costs of carrying out meetings and any other miscellaneous costs directly associated with Project implementation, all based on periodic budgets acceptable to the Bank, but excluding salaries or honoraria of officials and employees of the Borrower's civil services.

1. The Administrative Department provides the Financial Department with all supporting documents to process the payment
2. Original documentation must be firmly attached to the original check request include, but not automatically limited to the following:
    a) Original Official vendor invoice,
    b) Receiving Report,
    c) Deduction at Source,
    d) Contract, when applicable,
3. The Accountant should do the following:
    a) prepare the Payment Order upon the receipt of all supporting documents, and should

record the following entry:
    - Expenditures, assets XXXX
    - Accounts Payable XXXX

b) prepare the checks or wire transfer and verify the accuracy and completion of the voucher and send it to the authorized signatories for signatures,
    - Account Payable XXX
    - Cash-Banks XXXX

4. The accountant should verify the approved Payment Order and review the supporting document, and send it to the CFO for further processing,
5. The CFO should verify the documents and forward them for review and approval by the CEO
6. The CEO review the original supporting documents of the payment, sign the check, and send it for further authorizations (second signatory),
7. Upon receiving the signed checks/wire transfer, the Accountant reviews the payment and record it in the cash disbursement journal, double check the accuracy of the accounting record before posting the disbursement journal to the General Ledger.
8. The entry should be reviewed and approved by the CFO.
9. The accountant hands the checks to the vendors, the vendors are requested to sign payment vouchers,
10. All supporting document should be invalidated and filed in the Financial Department,
11. A check control log ("check register") must be established and maintained through the accounting software to follow-up on outstanding checks. The control log should contain:
    a) Sequence of checks issued,
    b) Name of the beneficiary,
    c) Check date,
    d) Clearance date of the return and/ or avoidance date.
12. The check register must be approved by the CFO on quarterly basis.

<u>ISSF Investment disbursement:</u>

1. The ISSF applies the Broad Investment parameters to determine the type of investment and financial allocation.
2. The applications for funding whether by a fund, and investment partner or by a startup/SME directly are all reviewed by the Investment committee for eligibility as described under section 3.
3. Upon receiving the IC investment decision, the CEO and the CFO will conduct a final review to check for compliance with the ISSF guidelines and the CEO will provide a signed equity shareholder's agreement with the beneficiary of the funding.
4. When a payment is due to the beneficiary, they will prepare and send a payment or replenishment request attached with all related documents.
5. The Accountant in the Financial Department should perform the following tasks:
    a. Review the Payment Request.
    b. Compare the Payment Request to the budget.
    c. Prepare Payment Order.
    d. Record the payment in the accounting system.
    e. Expenses, assets XXXX
    f. Accounts Payable XXXX
    g. Print the Journal voucher and sign as preparer.
    h. Prepare wire transfer or check and deliver the payment with supporting documents to the CFO

6. The CFO should verify the approved Payment Order and supporting documents and forward to the CEO
7. The CEO reviews the original supporting documents of the payment according to the equity shareholder agreement , signs the wire transfer, and sends it for further authorizations (authorized signatories),
8. Upon receiving the signed /wire transfer, the Accountant records the payment in the cash disbursement journal.
    a. Account Payable XXX
    b. Cash-Banks XXXX
9. The Accountant should review the payment and the accuracy of the accounting record, and post the disbursement journal to the General Ledger.
10. The entry should be reviewed and approved by the CFO
11. The beneficiary is notified of the payment and is requested to sign payment vouchers.

## IV . Check Stop Order

Policy

1. Check stop order should be issued to the bank upon receiving a written request from the beneficiary claiming loss or error in the issued check(s).
2. For voided checks that have been distributed, a Stop Payment Order must be requested.
3. The Accountant should remove from the outstanding check list those checks for which a stop payment confirmation notice has been received.
4. A new check shall be issued after receiving a confirmation from the bank that the check is stopped.
5. All Stop Orders need to be in compliance with the local laws and regulations.

Procedures

1. The Accountant should be responsible for stop orders based on valid cases.
2. All Stop Orders must be approved by the CFO.
3. CFO sends it to the CEO
4. The CEO will approves the stop order.
5. Financial Department will send the order to the bank.

## V. Authorized Bank Signatories

Policy

1. All authorized signatories with their authorized limits must be approved by the Board of Directors.
2. Any change to check signing authority must be authorized by the Board of Directors.
3. The CEO must promptly notify the bank of any changes in authorized signatories or their authorization limits.
4. A minimum of two signatories are required for each bank transaction. A Third signature will be needed for all payments exceeding JD100,000, unless such requirement was waived by the BOD.

Procedures

The following individuals are the authorized signatories for all the ISSF related bank accounts and the related transactions whether for Project investment disbursements or operational expenditure:

- The CFO if ISSF

- The CEO of ISSF
- The Chairman of the board of Directors of ISSF

## VI . Cash Receipts

Policy

I. Receipt voucher should acknowledge all cash receipts.
II. Receipts vouchers should be serially pre-numbered and should be prepared only from the accounting software.
III. The original copy of the receipt voucher should be provided to the payer.
IV. As soon as cash and checks are received, they must be restrictively endorsed for deposit to related bank account.
V. The cash and checks must be deposited into the bank within 24 hours of receipt.
VI. The payer name and code number (as per accounting records) should be stated on the receipt voucher.
VII. The CFO should match the deposit slip with the receipt voucher to ensure the total checks collected were deposited subsequently in the bank.
VIII. The CFO should ensure that there is no gap in the serial number of the receipt vouchers.

Procedures

### Receipt of Wire Transfers:

1. The Accountant should review the bank statements on a daily basis to determine any receipts.
2. The Accountant should record the completed Cash Receipt Slip with all backup into the accounting system as follows:
    a. Cash (Bank –Account) XXXXX
    b. Accounts Receivable (Name-Account) XXXXX
3. For receipts with differences between the payment and the agreement with the source of funds (WB or CBJ):
    a. If the amount is a partial payment apply the amount received.
    b. If the difference in payment is not explained in correspondence from the source of funds, apply the receipt to accounts receivable and contact source of fund to determine if the remaining balance is to be collected.
4. If there is correspondence with the source of fund indicating an amount in dispute, discuss the application of the receivable with the Accounting Manager.
5. The Accountant reviews and signs the journal voucher, and forwards it to the CFO who approves the Journal voucher and supporting documents, to be posted to the general ledger,
6. The Accountant should send receipt voucher to the payer,
7. The Accountant should file the Cash Receipt Slips and other supporting documents in the accounting files in order.

### Receipt of Checks:

1. The Accountant opens all checks and perform the following:
    a. Log them into the cash receipt log indicating the date, payee, check number, company applies to, and amount.
    b. Separate all checks by their respective payer
    c. Make copies of all checks received and fill out a deposit slip for each batch.
    d. Make a copy of the deposit slip, and send the deposit slip with the checks to the bank to be deposited.

e. deposit the receipts to the bank daily, and files the deposit slips.
f. complete the Cash Receipt Slip form, indicating check number, amount, deposit date, bank name and accounting code.
g. record the cash receipt to the proper accounts and properly relieve accounts receivable, if necessary.
h. attach the original bank deposit verification, the copy of the deposit slip, the copy of the check and any other information received with the checks to the Cash Receipt Slip
i. review and signs the journal voucher, and forward it to the CFO

2. The CFO should perform the following:
    a. iii. Compare the cash receipt log with the bank deposit,
    b. iv. Review and approve the Journal voucher and supporting documents, and return it to the Accountant,
3. Upon the CFO approval, the Accountant posts the journal voucher to the general ledger, and send receipt voucher to the payer and file the Cash Receipt Slips and other supporting documents in the accounting files.

## VII. Bank Reconciliations

<u>Policy</u>

1. Bank reconciliation must be prepared on a monthly basis for all bank accounts even if the balance per books agrees with the balance per bank statement.
2. The bank reconciliation should be prepared by the Accountant using the standard bank reconciliation statement. This standard form provides the following benefits:
    a. Assurance that all necessary information is included on each reconciliation (the reconciler name and signature, date of preparing, bank name and account's number, the original bank statement attached, numbers and dates of related documents and balances)
3. The reconciliation should be prepared in the original currency of the account.
4. The reconciliation should be prepared and approved within four days from the end of the month.
5. Reconciling items (i.e., outstanding checks and deposits in transit) should be clearly identified. Items outstanding for a long time should be investigated, and necessary action should be taken.
6. The Accountant should prepare a voucher for any unrecorded items identified in the bank reconciliation statement such as cash transfers, bank charges and errors in recording.
7. Checks outstanding in the reconciliation for more than six months should be cancelled and investigated.
8. The Accountant should prepare a journal voucher to revert checks back to cash at bank account.
9. At the end of the year, a review should be made of the checks that were cancelled and reverted back to the cash at bank. These should be taken to a liability account upon the recommendation of the Accountant and approval of the CFO.

<u>Procedures</u>

1. The Accountant should perform the following procedures:
    a. Obtain original copy from of the bank statement for the period under reconciliation.
    b. From the bank statement for the month under reconciliation, obtain the cash balance as of the end of the month.
    c. Add to the bank balance the amount of deposits-in-transit as of the end of the month.
    d. Subtract from the bank balance the total of outstanding checks as of the end of the month.

   e. When all reconciling items have been identified, either add or subtract the reconciling items from the bank balance as necessary to arrive at the adjusted book balance.
   f. From the prior month's bank reconciliation obtain the balance forward – general ledger.
   g. Agree this amount to the beginning of month General Ledger to ensure there have been no prior period adjustments.
   h. Roll forward the General Ledger to account for all cash receipts, transfers, loan payments, bank charges and other activities.
   i. Agree the ending book balance per spreadsheet to the General Ledger and to the adjusted bank balance.
   j. If ending book balance per the spreadsheet does not agree to the General Ledger, review all items on the General Ledger to ensure they are recorded on the spreadsheet.
   k. If ending book balance does not agree with bank balance, review all items on the bank statement to ensure that all items recorded by the bank are posted to the General Ledger or are listed as reconciling items.
   l. Research all non-reconciled differences until found or until passed by the Accounting Manager.
   m. Prepare any journal entries as necessary.
   n. When reconciled, give bank reconciliation and supporting documentation (i.e. outstanding check list, detail of deposits in transit, copy of bank statement, journal entries) to the CFO for approval.
2. The Accountant should review and approve the bank reconciliation, and deliver it for further approval, by the CFO
3. The Accountant should file approved reconciliation and supporting documentation with the monthly closing file.
4. The Accountant should file the original bank statement by bank.

## VIII. Voided Checks

Policy

1. A voided check is a check spoiled in the process of preparation, before it is recorded monetarily in the accounting records.
2. A canceled check is a check recorded monetarily in the accounting records and is not paid by the bank.
3. Voided or canceled checks must be thoroughly defaced by prominently imprinting the word "VOID" or "CANCELED" with a rubber stamp across the payee's area name.
4. Both voided and canceled checks must be retained for the same retention period of the accounting records.
5. The check numbers of all voided or canceled checks and the date of action must be reported in writing to the financial manager for entry in the control record under the heading "VOID/CANCELED".

Procedures

1. Voided check should be defaced by the Accountant by writing/stamping the word "VOID" on the face of the check.
2. If the void occurs within the same month as the date the check was written, the void should be entered by the Accountant as a cancellation on the system after obtaining the CFO approval, the system will correct the accounts payable register automatically by posting the reversal of the check to the appropriate vendor.
3. All checks that are voided after the month the check was written, and are valid payables, must be

reissued immediately. The Accountant should prepare new payment request form with the General Ledger, coding indicating the cash account as the credit and accounts payable as the debit and should process the payment request using the disbursement procedures. The old check is voided in the outstanding check module and via journal entry as a debit to cash and credit to accounts payable. Therefore there is no financial statement impact.

4. The original payment request number must be indicated on the reissued payment request form.
5. The original payment request must be marked "VOID", but filed as usual with other payment requests in order to maintain the audit trail.
6. The actual voided checks should be kept in a file for the period specified above, all voided checks need to be kept together in one file.
7. At the end of the month all the voided checks in the file for that month should be used in reconciling the bank statement.
8. When the bank reconciliation is finished with the voided checks, they should be filed in the box of canceled checks returned from the bank for that same month. This is done to keep all checks that have been used together so that they can be easily accounted for.
9. The Accountant should account for the serial numbers of the checks, used checks, voided checks, and remaining serial numbers.

### IX. Request of Check Booklets

Policy

1. All orders of new checks must be ordered sequentially with no gaps in the check number sequences.
2. Blank checks should be safeguarded by the check preparer, and should be secured in locked cabinets or drawers.
3. Paid checks retained with the bank statements must be kept, along with any voided and canceled checks, in locked storage for the same retention period for keeping the accounting records.
4. Access to blank checks should be limited to the Accountant and the CFO.

Procedures

1. In case of check book shortage, the Accountant should prepare request for new check book, and forward it to the CFO,
2. Upon receipt of a new order of checks, for each box, the CFO should verify:
    a. Company name and address.
    b. Bank account number.
    c. Accuracy of check sequencing.

### X. Initiated Wire Transfers Out

Policy

All wire transfers must be requested and properly authorized on a payment request supported by original documentation and signed by authorized personnel.

Procedures

1. The Accountant should complete the wire transfer request form (authorization to the bank), and the payment request form indicating the necessary information.
2. The CFO approves the transfer by initialing the payment request (for operating expenditures) and/or signing the wire transfer request (for project Investment disbursement) and sends it for further approvals by authorized signatories.
3. After being approved, the original wire transfer letter should be submitted to the bank and the Accountant should call and confirm the information with the bank.

4. The Accountant should input the information into the computer and post the transaction on the day it occurs.
5. All transfers must be reviewed by the CFO
6. The Accountant should file the payment request forms**.**

## XI. Outstanding Checks

Policy

All outstanding checks should be accounted for.

Procedures

The Accountant should perform the following procedures:

1. Download from accounts payable all checks issued during the month into a spreadsheet.
2. This spreadsheet should also contain the prior months outstanding check list.
3. Ensure that all checks are accounted for by making sure there are no breaks in the numerical sequence of the checks. Start with the last check written in the previous month and end by verifying that the number of the last check used is the one just before the next check number in the blank check stock.
4. If a check in the sequence is missing, research what happened to the check to determine what its status is and whether it will impact the outstanding check list.
5. Obtain the bank statement showing all checks that cleared the bank during the month.
6. Compare the bank statement to the list prepared above (all previous outstanding checks and checks written during the month) and remove from this list all checks that cleared the bank.
7. To remove voided checks from the outstanding check list, obtain the voided check file.
8. Only remove from the outstanding check list those checks in the file that are mutilated originals of the checks to be removed. The voided check should be entered through the accounts payable system not by journal entry.
9. For voided checks that have been distributed, a Stop Payment Order must be requested.
10. Only remove from the outstanding check list those checks for which a stop payment confirmation notice has been received.
11. Every month, stale checks (checks greater than six months old; some checks have a 90 day negotiable expiration) must be removed from the outstanding check list, if applicable, and reversed using the original general ledger account, by posting the following journal entry:
    a. Cash$ (stale checks) XXXXXX
    b. Expense$ (stale checks) XXXXXX
12. Once all items have been removed (i.e. checks clearing the bank, being voided, having stop payments issued against them or being reclassified to the stale check liability account), the remaining list becomes the new outstanding check list for the month. The dollar amount is totaled and that total is the amount to be used in the bank reconciliation.
13. Print the outstanding check list and file with the bank reconciliation.
14. These steps should be performed every month as of the end of each month as soon as the bank statement is received from the bank.
15. In order for a voided check to be removed from the outstanding check list, the mutilated negotiable original must be retained or, if the check has already been distributed, a verification of the stop payment made on the check must be obtained from the bank prior to the removal of the voided check from the outstanding check list.

## XII. Petty Cash

Petty cash funds allow cash to be made available to departments and activities to facilitate cash payment for minor expenditures while maintaining proper control.

Policy

1. One fund should be set up in the amount of $1000, respectively, for authorized out-of-pocket expenses and minor business expenditures. Permits and fees less than $100 and miscellaneous office expenditures less than $100 can be paid through Petty Cash.
2. For reimbursement, receipts and proper documentation, including the Petty Cash Reimbursement Form, should be coded and sent to Accountants when the fund balance reaches $300.
3. The petty cash fund should be in the custody of an employee who has no role in approving payments or book keeping; the custodian should not have access to the accounting records.
4. Payments from petty cash should be made against vendor invoices or a written approval from the Administrative and Financial Manager; those invoices and/or approvals should be maintained with the petty cash custodian.
5. At any time, the sum of petty cash on hand plus the total amounts of paid invoices should always equal to the fund main balance.
6. The petty cash fund should be subject to a monthly review and reconciliation by an accountant not responsible for petty cash custody.
7. Any loss arising from negligence or theft must be immediately reported to CFO and shall be reported to the CEO.
8. When custody of the petty cash fund is transferred to another custodian, the existing fund should be closed and a new check requested for payment to the new custodian.
9. The petty cash is to be held in a locked cash box and stored in a secured drawer, cabinet, cupboard or safe during the day and overnight. Moneys should not be left unsecured or unattended at any time.
10. Only the custodian or delegated staff should have access to funds and security keys. It is preferable that one person controls the key.
11. Petty cash receipts, vouchers and other supporting documents are to be obtained, approved by the CFO and attached to the petty cash form. The petty cash form should be kept up-to-date at all times.

Procedures

Disbursements from Petty Cash

1. The specified custodian of petty cash should obtain supporting documents such as invoices to support payments from petty cash.
2. Prior to the disbursement of any fund, a petty cash payment voucher should be prepared by the fund custodian and approved by the CFO
3. Expenditures paid from the petty cash fund can only be made for the purpose for which the fund was authorized (see policy above) and must be supported by receipts which should contain the following information:
    a. Date of purchase or payment,
    b. Name of vendor or other payee,
    c. Positive evidence that a payment was made, i.e., a cash register receipt or a hand written receipt on which the word “PAID” appears,
    d. Amount paid,

   e. Description of the goods purchased (entered by the vendor if a hand written receipt is obtained, or the by the purchaser if a cash register tape is issued,
   f. Signature indicated receipt of purchases or services.
4. The petty cash custodian should maintain a petty cash book (separated from the accounting software) to document all petty cash transactions and a petty cash expenditures ledger accounts, according to the classification of expenditures in the chart of accounts.

Replenishment

1. When the cash on hand reached to $ 300, the petty cash fund should be replenished in order to bring the balance up to $ 1000
2. The amount replenished should equal the sum of all disbursements since the previous replenishment. Any difference should be promptly reconciled and cleared.
3. The petty cash custodian should prepare a report showing the details and total of all paid payment vouchers, and the balance requested for reimbursement,
4. The custodian should submit the report with all supporting documents to the Accountant,
5. Accountant should review and record the request in the accounting system, and submits the documents with the journal voucher to the Senior Accountant,
   a. Expenses (by type and function) XXXX
   b. Petty Cash XXXXX
6. The Senior Accountant should review and approve the request, and submit it to Accountant for check preparation, Accountant should prepare the check and send it for further approvals by authorized signatories,
7. The petty cash replenishment check should be payable to the petty cash custodian after the approval of the CFO and CEO.
8. the Accountant should record the following entry upon handing the check to the custodian,
   a. Petty cash fund XXXXX
   b. Cash-Bank XXXXX
8. Petty cash transactions are not posted until the fund is reimbursed, thus the Accountant should post the reimbursement and the disbursement transaction on the same time,
9. Any shortage or surplus in the fund should be investigated.
10. Surprise cash counts by the Internal Auditor should be performed at least once a month.
11. A proper documentation should be made for the surprise cash counts, this document should be signed by the custodian and the Internal Auditor and approved by the CFO.

Monthly Reconciliation of Petty Cash

1. The Accountant, at the end of each month should:
   a. Review the amounts available in the petty cash fund.
   b. Perform a physical count of the available cash in the fund and the total cash to the total amount of invoices and should prepare a reconciliation form.
   c. Sign the reconciliation form and submit it to the Senior Accountant for review and approval. If there are any shortages (losses), arising from negligence or theft, the Accountant must immediately report the case to the CFO in order to take proper actions.
2. A copy of the reconciliation should be filed.

## XIII. Investing Cash

Policy

1. If there is a surplus in the cash balance the ISSF must save it in a separate account and not re-invest it until the entire fund amount from the World Bank and the CBJ which are expected to flow into ISSF bank accounts are exhausted and after acquiring a BOD approval in agreement with the World Bank.

2. Until acquiring such WB and BOD approvals, the proceeds from exits and surplus funds which will not be utilized instantly should be deposited in an interest bearing account.

Procedures

1. The CFO should prepare monthly report showing any surplus funds coming from.
    a. Proceeds of exit transactions from certain investments.
    b. Dividends payed to investors from currently-held investments
2. The report should also include the commercial bank's interest rates on deposits, the period in which the funds will be available for deposit, and a preliminary calculation of interest income that can be generated.
3. The CFO should submit the report to the CEO for review and approval.
4. After being approved by the CEO, the CFO should immediately prepare a transfer letter of available funds from the current accounts to deposit accounts, and should have that letter signed by the authorized signatories.
5. The Accountant should record interest income immediately upon receipt of the bank statement, as follows:
    a. Dr. Cash $(interest income) XXXXX
    b. Cr. Interest Income $(interest income) XXXXX
6. The journal vouchers or entry should be reviewed and posted by the Accountant.
7. The entry should be reviewed and approved by the CFO.
8. The Accountant and CFO should approve the Journal voucher.

XIV. Bank Charges

Policy

Bank charges should be identified and recorded on time and at least monthly, and before closing the month.

Procedures

1. The Accountant should locate any bank service charges for the month, including wire transfer fees. Various charges may need to be accumulated, and with that amount complete the following entry:
2. Bank charges expense $(bank charges) XXXXX
3. Cash $(bank charges) XXXXX
4. The Accountant should submit the journal voucher for further approvals by the Accountant who should post the entry.
5. The Accountant should file the copies of the journal voucher.

## 11. Accounts Payables

Policy

1. The CFO is responsible for recording ISSF purchases and for payment to any entity.
2. The ISSF should use the accrual basis in recording purchases and in processing payments to vendors.
3. Accounts payable should be reconciled periodically.

4. Payables should be recorded at face value plus or minus any interest premium or discount and other appropriate adjustments. The payable amount can be determined from the billing received and should be verified against purchase orders/requisitions, contract terms or any other appropriate documents prior to recording liability.
5. When actual values are not available, recorded value should be based on best available estimates. Estimates should be based on current market price, past history and comparables.

Procedures

Invoice Processing

1. The purchasing documents should be submitted to the Accountant in order to record the required journal entry.
2. The Accountant should verify the existence, approval and consistency of the following supporting documents before recording the procurement transaction in the accounts payable ledger:
    a. Internal Purchase Request;
    b. Purchase Order;
    c. Quotation Evaluation Reports, if any;
    d. Contract with the vendor, if any;
    e. Purchase Receiving Report;
    f. Supplier Tax Invoice;
    g. Tax Deduction at Source.
3. Each suppliers' tax invoice should be checked by the Accountant against the following:
    a. Clerical accuracy;
    b. Agreement of description, specification, unit cost and quantity received to the purchase order noting proper authorization;
    c. Comparison of the credit period and terms with those specified on the purchase order and agreement, if any.
4. If the documents are not satisfactory, they should be returned to the Administrative Department.
5. If the documents are satisfactory, the Accountant should record the invoices into the accounts payable ledger as follows:
    a. Dr. Expenses/Fixed Assets XXXXX
    b. Cr. Accounts Payable (Vendor) XXXXX
6. If it is agreed to make an advance payment to the vendor, proper payment procedures should be followed, and the payment should be recorded as receivable and controlled in a manner that assures they will be recovered by an offset against vendor invoices.

Monitoring and Reconciliations

1. The accounts payable ledger should be reviewed, by the Accountant, on a monthly basis for any debit balances. Accordingly, the debit balances accounts should be reclassified to their related accounts.
2. A statement of account should be obtained from recurring vendors periodically, on a sample basis, for example on a semiannual basis.
3. Based on the statement of account received, the Accountant should prepare reconciliation with the accounts payable ledger.
4. Any reconciling items resulting from unrecorded liabilities or payments should be investigated and promptly adjusted.

5. Any debit balance in the accounts payable ledger should be brought to the attention of the CFO
6. Monthly accounts payable reported by the Accountant should be prepared to identify payments due for the period and investigate any long outstanding balances.
7. At year-end, confirmations and statements of major 4 to 6 suppliers' accounts should be obtained from them in order to confirm their outstanding liabilities, if any.
8. If confirmation balance does not agree with the vendor's ledger balance, accounts payable reconciliation should be prepared to quantify and resolve the differences.
9. Accounts payable reconciliations should be approved by the CFO.

Table 2.3: Procurement methods

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

Table 2.4: Decision authority

| Category | Decision | Contract amount |
|---|---|---|
| Goods | CEO | Up to 2,000JD |
| | CEO, upon recommendations of a secondary procurement committee | Up to 20,000JD |
| | Board, upon recommendations of a principal procurement committee | Above 20,000JD |
| Consulting | CEO | Up to 5,000JD |
| Services | Board, upon recommendations of a principal procurement committee | Above 5,000JD |

## 12. Fixed Assets

I. Acquisition, Costing & Capitalization of Fixed Assets

Policy

1. The fixed assets are tangible assets owned by the ISSF and used in ISSF operations (not for resale). They have initial estimated useful life beyond a single year. A fixed asset with an initial cost (inclusive of ancillary charges) of at least $100 should be capitalized and becomes known as a capital asset.
2. A fixed asset is capitalized only if it meets all of the following conditions:
    - Owned or considered owned by the ISSF.
    - Held for operations (not resale).
    - Has a useful life that exceeds one year.
    - Meets the capitalization threshold.
3. With the exception of donated assets, fixed assets are accounted for at the original acquisition cost, which includes the purchase price and all costs necessary to put that asset into existing use and location. These costs include but are not limited to freight, insurance, and installations (i.e., ancillary costs.). The cost of an asset will be recorded at the historical cost of the asset.
4. When two or more assets are obtained at the same time and their individual costs are not readily known, the individual costs are allocated to the assets based on their relative fair market values

at the time of acquisition. These costs are simply the ratio of the initial acquisition cost vs. their relative fair market values.

5. When the ISSF receives donations of fixed assets, donations of capital assets should be recorded in the accounting records as revenue at the fair value at the date of receipt and capitalized in the accounting records. The methodology used for determining fair value should be documented.
6. All the documentation supporting the acquisition cost of an asset along with reports or information substantiating its existence and location should be maintained and made available for examination by the Internal and External Auditors.
7. All documentation supporting the relocation, improvement or betterment of an asset, including cost of such action and dates, should be maintained and made available for examination by the Internal and External Auditors.

<u>Procedures</u>

Acquisition of Fixed Assets:

1. The Administrative Department is responsible for the procurement of fixed assets.
2. The vendor's invoice should be received by the Administrative Department.
3. The Administrative Employee should verify the invoice and attach it to the following:
    - Internal Purchase Request (IPR);
    - Original Official Vendor Invoice;
    - Receiving Report;
    - Deduction at Source;
    - Contract, when applicable.
4. The Administrative Employee should submit the invoice with the supporting documents to the Financial Department to record the purchase of fixed assets and process the payment to the vendor.
5. The Accountant reviews the invoice with the supporting documents and puts his initial on the invoice to indicate his approval of recording the fixed assets and initiating the payment process.
6. A copy of the receiving report should be submitted to the Administrative Department in order to update the fixed assets register and prepare the identification tags.
7. The Accountant records the purchase of fixed assets in the accounting records, using the following entry:
    - Dr. Fixed Assets XXXXX
    - Cr. Accounts Payable – Vendor XXXXX
8. The Accountant post it into the accounting system.
9. The Accountant should review and post the journal voucher, attach the supporting documents with the journal voucher, sign it and send it to the CFO for review and approval.
10. The Accountant initiates the payment process.
11. The Accountant should ensure that the purchased fixed assets are **identified and recorded** with specific tag numbers by the Administrative Department and should report any delay to the CFO (See Fixed Assets Identification Procedures).

<u>II. Depreciation of Fixed Assets</u>

<u>Policy</u>

1. The entire cost of an asset must be depreciated. Depreciation is allocated monthly over the estimated useful life of the capital asset, as detailed below.

2. Depreciation is to commence in the first month after the asset is placed into service.
3. Fixed assets will be depreciated on a straight-line method over their estimated useful life.
4. Guidelines for estimated useful lives by capital asset category are as follows:
    a. Capital Asset Category Estimated Useful Life
    b. Furniture 10 Years
    c. Vehicles 5 Years
    d. Equipment 5 Years
    e. Computer 3 Years
    f. Software 5 Years
5. The above useful lives may be affected by changes in the business and technological environment or the use of the equipment.
6. Depreciation expense for a fixed asset begins in the month following the acquisition date of the asset and continues until the accumulated depreciation equals the original installed cost, or until the asset is retired from service.
7. A fully depreciated fixed asset will remain in the fixed asset sub-ledger until the fixed asset is retired from service.

<u>Procedures</u>

1. The Accountant is responsible for computing, recording, and posting of depreciation of fixed assets.
2. The Accountant calculates the depreciation of fixed assets, at the last working day of each month, based on the following:
    - Capital assets category/item;
    - Depreciation rate designated for the asset;
    - Asset cost, as shown in the accounting records.
3. If the accounting software calculates depreciation automatically, the Accountant should print out the depreciation calculation sheet, sign it and submit it to the CFO for review and approval.
4. The Accountant prepares the depreciation journal voucher based on the calculation sheet and notifies the CFO to review and post the journal voucher. If the accounting software prepares the journal automatically, the Accountant should review the journal and ensure it matches the automatic calculation sheet and post the journal.
5. The Accountant reviews the journal voucher and ensures the following:
    - All fixed assets are included;
    - The depreciation rates used are in compliance with the authorized rates;
6. The Accountant posts the journal voucher to the General Ledger and submits the journal, attached with the calculation sheet, to the CFO for review before filing the voucher in the journal vouchers file.

<u>III. Disposal of Fixed Assets</u>

<u>Policy</u>

1. The Administrative Department is responsible for identifying the following:
    - Obsolete assets;
    - Damaged beyond repair assets;
    - Completely used assets;
    - Junk assets;

- Mysterious disappearance;
- Involuntary conversion.

2. Disposing of a fixed asset requires removing the asset’s net book value from the accounting records. This involves removing the original cost and the accumulated depreciation of the asset.
3. Any difference between the proceeds received and the net book value represents a gain or loss on the disposal of fixed assets.
4. This gain or loss should be recognized in profit and loss for the year in which the asset was removed.

<u>Procedures</u>

1. The Administrative Department is responsible for identifying the fixed assets that need to be disposed and should obtain the required approvals. The Administrative Department should perform the following:
   - Complete an appropriate form to dispose the asset signed by the asset user;
   - Obtain the approval of the department’s manager to dispose the asset;
   - Obtain the recommendation of the appointed disposal committee.
2. If the historical cost of the disposed asset exceeds $ 2,500, the CEO should nominate a committee, which should consist of the CFO, administrative manager and professional staff in the related subject. The committee will recommend the CEO of the actions to be taken.
3. If the historical cost of the disposed asset exceeds $5,000, the approval of the Board of Directors is a must and should be obtained.
4. The Administrative Department provides the Financial Department with a copy of the approved forms.
5. The CFO will review the request and if approved, a committee will be formed by the CEO to approve the disposal.
6. The committee will consist of the CFO, Administrative Department manager, and an employee from the department of which the asset will be disposed.
7. The Committee should prepare and sign a report of the status and identification of the assets intended to be disposed, reason of disposition, the suggested disposition method, any prospected losses or gains that can result from the disposal transaction, and the committee’s recommendation.
8. The report will be submitted to the General Director for final review and approval.
9. The Administrative Department will be responsible for following up on disposing the assets based on the committee’s recommendation report and the approval of the CEO and/or the BOD.
10. The Administrative Department should prepare a fixed disposition report and submit it to the CFO when the disposal transaction is complete.
11. The CFO will review and approve the disposition report and will submit it to the Accountant to record the disposition transaction.
12. The Accountant should make the following journal entry to record the disposition transaction:

    Disposition through sale – Gain:
    - Dr. Cash XXXXX
    - Dr. Accumulated Depreciation XXXXX
    - Cr. Fixed Assets XXXXX

- Cr. Gain on sale of fixed assets XXXXX

Disposition through sale – Loss
- Dr. Cash XXXXX
- Dr. Accumulated Depreciation XXXXX
- Dr. Loss on sale of fixed assets XXXXX
- Cr. Fixed Assets XXXXX

Disposition through- Non cash transaction:

13. The Accountant should review and post the journal entry and submit it to the Financial department for review and approval.
14. The Accountant should attach the approved disposition report to the journal voucher and file it in the journal vouchers accounting file. The Accountant should ensure that the disposition of the fixed assets is reflected in the fixed assets register by the Administrative Department. (See the Recording of Fixed Assets into Assets Register Procedures).

<u>IV. Fixed Assets Identification</u>

<u>Policy</u>

1. To ensure that each individual asset has a unique identification. An identification number should be assigned and tagged for all fixed assets (other than land, buildings). This tag must have a unique identification number that will be associated with the asset and becomes a part of the asset's record.
2. The identification number will be comprised of four components:
    a. Fiscal year of the original acquisition (4 digits);
    b. Asset type (1 character letter);
    c. Location (i.e. room number); and
    d. A sequential number.
3. The Administrative Department will be responsible for tagging fixed assets.

<u>Procedures</u>

1. The Administrative Department is responsible for identifying all ISSF fixed assets with tag labels; and should maintain a list of the used identification codes.
2. A copy of Receiving Reports of newly acquired fixed assets should be maintained by the Administrative Department in order to tag the acquired assets and update the fixed assets register (See Acquisition, Costing & Capitalization of Fixed Assets procedures).
3. Immediately after receiving the fixed assets receiving report, the Administrative Department should prepare tags and stick them to the acquired assets.
4. The Administrative Department should update the fixed assets register, immediately after preparing the identification codes/labels (See Fixed Assets Register and records Procedures).
5. The Accountant, semiannually and on a sample basis, should compare between the fixed assets register and the existing fixed assets to ensure the existence of the assets and whether the assets are properly identified/tagged (See Fixed Assets Register and records Procedures and see also Fixed Assets Physical Count and Reconciliation).
6. The Accountant should report to the CFO on any variances between the register and the count performed.

<u>V. Fixed Assets Register and Records</u>

Policy

1. The Administrative Department should maintain an updated fixed assets register that contains:
    a. Description of the asset
    b. Name of the asset
    c. Identification number (tag number)
    d. Cost of the asset
    e. Date of acquisition
    f. Location of use
    g. Estimated life and mode of disposal
2. The registering process should be computerized.

Procedures

1. The Administrative Department is responsible for maintaining an updated fixed assets register of the ISSF fixed assets.
2. The Receiving Reports of newly acquired fixed assets should be prepared and maintained by the Administrative Department (See Acquisition, Costing & Capitalization of Fixed Assets procedures).
3. Immediately after preparing the fixed assets receiving report and after preparing the necessary identification codes, the Administrative Department should update the fixed assets register and provide the Financial Department with a copy for review and approval.
4. The Administrative Department should file an updated and approved copy of the register.

VI. Fixed Assets Physical Count and Reconciliation

Policy

1. The Administrative Department together with the Financial Department are responsible for the periodic physical count of fixed assets.
2. Physical count of fixed assets should be performed annually by a special fixed assets physical count committee.
3. Fixed assets register should be checked and verified by the Financial Department semiannually and on a sample basis.
4. Fixed assets recorded in the register should match those recorded in the accounting system; and if any deviations, differences should be identified, investigated, properly reported, and resolved.
5. In addition to locating, counting and recording fixed assets, details such as the identification codes/labels, location and status of the assets should be remarked.

Procedures

1. The Financial Department, semiannually, should obtain an updated copy of the fixed assets register from the Administrative Department.
2. The Accountant will select a sample of 40-50 fixed asset items and ensure that the selected fixed assets:
    a. Exist and in use;
    b. Properly maintained;
    c. Fixed assets are properly recorded in the register.
3. The Accountant should prepare and sign a brief report of the work performed, and should submit it to the CFO for review and approval.

4. The report should summarize whether there are any deviations and CFO will coordinate with the Head of the Administrative Department to investigate and resolve any deviations.

Annual Physical Count:

1. During the Month of December, and before the end of each year, a fixed assets physical count committee should be officially formed by the CEO.
2. The Committee should consist of the CFO/an employee of the financial Department, the Administrative Department manager, an employee from the IT Department, and employees from other departments, if required, and the ISSF Internal Auditor and External Auditor.
3. Official invitations for the attendance of the fixed assets physical count should be submitted to the ISSF Internal and External Auditors.
4. The tasks of the Committee should be prepared by the CFO and approved by the CEO.
5. The CFO should send a copy of the tasks description to every member of the Committee, in order for each member to know the details of the assignment and his/her role in the count.
6. The CFO should provide the physical count committee, the Internal Auditor and the External Auditor with a copy of the fixed assets report.
7. The report should include fixed assets items and the quantity of each item.
8. The Committee should record the actual quantity of each fixed asset item, as revealed by the physical count.
9. The Committee should prepare a physical count report, sign it and submit it to the CFO for review and approval.
10. The CFO should provide the CEO with the fixed assets physical count report for review and approval.
11. The CFO should send the report, after being approved by the CEO, to the Accountant to prepare necessary adjustments to the fixed assets ledger in the accounting software.
12. The Accountant will prepare necessary adjusting journal vouchers and submit them to the CFO for approval of adjustment.
13. The approved report and the adjusting journal entries should be filed at the Financial Department in order to be reviewed by the External Auditor.

## 13. Payroll

Policy

1. Employees should sign in and out using the electronic time-keeping machine.
2. The responsibility for supervision and time-keeping functions must be assigned to an employee who is not part of the payroll function at the Department of Administration and Human Resource, and does not take part in the payroll processing, disbursement, or any general ledger functions.
3. All time sheets must be reviewed and approved by the employees' supervisors.
4. The time sheets must indicate hours worked, overtime hours, and other special benefits.
5. The employee supervisor must approve all sick leaves, vacations, holidays, and overtime. A special form must be submitted for approval by the supervisor before vacation is taken.
6. Overtime must be approved before actual working hours, and the approval of overtime is part of the approval of the time sheet.
7. Holidays must be reported on time sheets only; no other form is required to be submitted.

8. Employees must follow management instructions for holidays.
9. Overtime may be required on a periodic basis. Supervisors are responsible for authorizing any overtime and notifying employees of such extra work hours in advance, if possible. A special form should be prepared, signed and submitted to the Department of Administration and Human Resource by the supervisor.

Procedures

1. Employees should sign in and out using the electronic time-keeping machine.
2. The Department of Administration and Human Resource should monitor employees' attendance and leave and update payroll information on the salaries software.
3. The Department of Administration and Human Resource should also monitor employees' vacations, holidays, sick leaves, other types of leaves in addition to their overtime hours and other benefits and should make sure all these are supported with approved forms and accordingly update payroll information on the salaries software.

II. Payroll Processing and Payment

Policy

1. The Department of Administration and Human Resource is responsible for preparing the following:
    a. Payroll monthly calculation sheet;
    b. Payroll wire transfer;
    c. Payroll journal entry.
2. Employees' payroll should be paid from ISSF bank account.
3. The personnel and payroll data is strictly confidential information and shall be restricted to the authorized persons only.
4. Employees' salaries are considered confidential and should be strictly protected in the Department of Administration and Human Resource files.
5. Employees' salaries are calculated and prepared using the HR system.
6. Payroll processing should start by the 25th day of each month so that salaries are ready for payment by the end of the month. It is prohibited by law to delay the payment of salaries for more than five working days from the due date.
7. Deductions for employees' advances and receivables should be made from payroll.
8. Transactions involving deductions from employees' salaries should be processed promptly and reflected in the monthly payroll.
9. The amount of deduction of employees' advances should be agreed upon with the employee. However, any advances to employees should be covered from employees' salaries within the year in which the advances were made to them.
10. Payroll payment must be supervised by employees who are not responsible for hiring or firing people, employees who do not approve time reports, and employees who do not take part in payroll preparation.
11. If salaries were not paid prior to month's closing, a journal voucher must be prepared to reflect the accrual of salaries. The accrual should be reversed when payroll is paid in the following month.
12. Payroll income tax is to be 100% deducted in accordance to Jordanian Tax Law, and any exemption must be supported with documents (rent contracts, students' certificates, etc.).

Procedures
Record and Transfer of Salaries:

1. On the 25th day of each month, the Department of Administration and Human Resource should initiate payroll processing procedures.
2. The Department of Administration and Human Resource should ensure that all required data are properly and completely entered into the salaries software.
3. The system will prepare employees monthly payroll and payroll taxes and will provide for end of service benefit, provident fund and other allowances.
4. A print out of salaries sheets must be prepared. The salaries sheets include all employees' names, I.D. numbers, gross salary, allowances, deductions, and net salary
5. The Department of Administration and Human Resource should submit salaries sheets to the CFO for review and approval.
6. After reviewing and approving the salaries sheets, the Department of Administration and
7. Human Resource should prepare the wire transfer.
8. The Department of Administration and Human Resource should prepare the bank wire transfer and send it to authorized signatories for review and approval.
9. After being signed by the authorized signatories, the wire transfer should be sent to the bank in order to be executed.
10. A copy of the wire transfer should be submitted to the CFO.
11. The CFO submits the wire transfer to the Administrative Department and Human resource to proceed with the process.
12. The Administrative Department posts the entry from the salaries software to the accounting software automatically. The following journal is automatically created into the accounting software as follows:
    a. Dr. Salaries Expense xxxxx
    b. Dr. End of Service Benefit Expense xxxxx
    c. Dr. Provident Fund Expense xxxxx
    d. Dr. Family Allowances expense xxxxx
    e. Dr. Transportation Expense xxxxx
    f. Cr. Bank xxxxx
    g. Cr. Tax Payable xxxxx
    h. Cr. Provision for End of Service xxxxx
    i. Cr. Provision for Provident Fund xxxxx
    j. Cr. Employees Advances xxxxx
13. Salaries documents should be sent to the Accountant in order to review and post the journal entry to payroll ledger.
14. The Accountant should print out the payroll journal voucher and obtain the approval of the CFO.
15. The Accountant should file the voucher in the payment vouchers file.

Record and Transfer of Payroll Tax:
1. The Accountant should prepare the payroll tax slip, the payment order and the bank check.
2. The payment order and the check should be submitted to the authorized signatories for their review and signature.

3. After being signed, a copy of the signed check should be maintained at the Financial Department.
4. The check should be deposited in the Tax Authorities' bank account and a Deposit Slip should be obtained from the bank.
5. The Deposit Slip and the Tax Slip should be submitted to Tax Authorities in order to stamp the Tax Slip for clearance.
6. The Stamped Tax Slip should be submitted to the Accountant in order to be recorded.
7. The Accountant will prepare the following journal entry:
    a. Dr. Tax Payable xxxxx
    b. Cr. Bank xxxxx
8. The Accountant should post the journal entry into the accounting system.
9. The CFO should review and approve the payment voucher.
10. The Accountant should file the payment voucher, attached to a copy of the check and the Stamped Tax Slip.

III. End-of-Service Benefit

Policy

1. End of service benefits should be computed and recorded monthly.
2. ISSF employees become vested in the end-of-service benefit plan upon completion of 12 months employment with the institution.
3. ISSF starts computing and recording end-of-service benefit of new employees after the probation period of those employees.
4. Any employee who works more than 12 months is entitled to end-of-service benefits.
5. The ISSF is to maintain a separate bank account for end-of-service contributions, after obtaining the approval of ISSF BOD.

Procedures

1. Calculating and Recording of the End-of-Service Benefit
2. The Department of Administration and Human Resource is responsible for calculating and recording employees' end of service benefits.
3. The end-of-service benefits must be calculated based on the number of actual years worked with the ISSF, at the end of each month, and the last salary paid to the employee excluding overtime. The difference between the balance in the provision of the current month and the previous month is the end-of-service benefit expense for the current month.
4. The end-of-service benefit should be calculated together with the salaries and they should be reviewed and approved by the CFO.
5. The CFO approves the calculation sheet and reviews it to make sure that salaries on the salaries sheet are consistent with salaries recorded in the calculation sheet, and that employees on both schedules are the same, except for the newly assigned employees who have been working for less than one year.
6. The end-of-service benefit is recognized and recorded together with the monthly salaries on the salaries software (See Payroll Processing and Payment Procedures)
7. If the ISSF has separate bank account for the end-of-service benefit, the Accountant should prepare a payment order to transfer the amount from ISSF bank account to the end-of-service bank account. The payment order should be prepared and approved; and the following entry should be made after the transfer takes place:

   a. Dr. ESB Bank Account xxxxx
   b. Cr. ISSF Main Bank Account xxxxx
8. The Accountant should post the journal voucher.

End-of -Service Payments

1. An employee shall submit a one-month notice of resignation before ending his/her services and to be entitled to his/her rights.
2. After the resignation is approved by the employee's supervisor, a copy is sent to the Department of Administration and Human Resource to begin the processing of the transaction.
3. The Department of Administration and Human Resource shall review the employee's file for any unrecorded sick leaves, or unpaid vacations, and prepare the calculation of the end of service benefits taking into consideration fractions of years worked.
4. If the employee has any other unpaid benefits, such as vacation or unpaid salaries, they should be calculated and summed up with the calculated end of service benefit.
5. The Department of Administration and Human Resources should ask the employee to hand over anything that belongs to the ISSF.
6. The Department of Administration and Human Resource should prepare an end-of service settlement letter which indicates that the employee has handed over anything that belongs to the institution, and that he has received all his benefits and he does not have any claims against the ISSF.
7. The documentation (the calculation sheet and the end of service settlement letter) to be sent with the employee file to the CFO for review and approval.
8. The CFO sends the calculation after reviewing and revising it to the Accountant in order to prepare the journal entry and the payment.
9. The Accountant should prepare a payment order to transfer the amount to the employee's bank account and should send the payment order to be approved by the authorized signatories.
10. The Accountant should make the following entry, after the transfer takes place:
    a. Dr. Provision for ESB xxxxx
    b. Cr. Bank xxxxx
11. The documents are returned back to the CFO for authorization of the transaction, and posting it to the system.
12. The Accountant should file the journal vouchers properly in the accounting files.

## 14. Financial Reporting

Policy

1. Financial information is to be provided on a timely basis using a consistent format.
2. Financial statements are a structured representation of the financial position of and the transactions undertaken by the ISSF. The objectives of financial reporting are to provide information useful for decision making by the ISSF and its stakeholders and to demonstrate the accountability of the ISSF for the resources entrusted to it. The Financial Statements accomplish these objectives in the following manner:
   a. Providing information about the sources, allocation and uses of financial resources.
   b. Providing information about how the entity financed its activities and met its cash requirements.

c. Providing information that is useful in evaluating the ISSF's ability to finance its activities and to meet its liabilities and commitments.
d. Providing information about the financial condition of the ISSF and changes in it.
e. Providing aggregate information useful in evaluating the ISSF's performance in terms of service costs, efficiency and accomplishments.

3. The preparation and presentation of the Financial Statements is the responsibility of the Financial Department. The Accountant prepares the Financial Statements, the CFO will have the responsibility for final review and approval of them. Financial Statements must be approved by the CEO before disclosing them.
4. The Financial Statements are to be prepared in accordance with the International Financial Reporting Standards (IFRS).
5. The Financial Statements should be clearly identified and distinguished from other information in the same published document.
6. The usefulness of the Financial Statements is impaired if they are not made available to users within a reasonable period after the reporting date.

Procedures

Following is a list of the items required in a financial package:

(a) Quarterly Interim Financial Reports:

1. The quarterly interim financial reports:
2. Should be prepared four times as of and for the period ended March 30, June 30, September 30, and December 31.
3. Should be prepared by the Accountant, reviewed and approved by the CFO and CEO
4. Should be reviewed by independent private and qualified auditors acceptable to the World Bank. The auditor should issue negative assurance review report in accordance to ISA.
5. Reports should be ready for audit within one week from the end of period: April 10, July 10, and October 10, and January 10.
6. Should be submitted by the auditors to donors after 45 days from end of each quarter.

(b) Annual Audits of Project's Consolidated Financial Statements

The consolidated Financial Statements:

1. Should be prepared at the end of each fiscal year.
2. Should be prepared by the Accountant, reviewed and approved by the CFO, and approved by the CEO.
3. Should be audited by an independent private and qualified firm. The external audit report should encompass all activities under the project's agreements, be in accordance with the Bank's auditing requirements and be conducted according to International Standards on Auditing.
4. The audit should be performed in accordance to an approved Terms of Reference (TOR) by the World Bank (see Annex 3).
5. Reports should be ready for audit within one month from the end of the fiscal year, and the auditors' report should be completed and submitted to donors within six months from the end of the fiscal year.

6. The audited Project Consolidated Financial Statements accompanied with auditors' management letter will be submitted to the BOD within six months after the end of each fiscal year. Should include the following:
   A. A complete set of Financial Statements includes the following components:
      I. Statement of Financial Position
         Statement of financial position is a financial statement that reports an organization's assets and the claims against them - liabilities and net assets - at a set date noted on the statement (Also called the balance sheet).
      II. Statement of Financial Performance
         Statement of Financial Performance is a financial statement that reports the results of an organization's business operations (revenue and expenses) for a set period, usually one year (Also called an Earnings Report, Income Statement, Statement of Income, and Statement of Operations).
      III. Cash Flow Statement
         Cash flow statement is a financial statement that reports the flow of cash in and out of the organization for a set period, usually one year. It reports the operating activities, investing activities and financing activities of the organization.
      IV. Statement of Changes in Net Assets/Equity
         Statement of Changes in net assets/equity is a financial statement that reports the changes and movements that took place on net assets last year ending balance.
   B. Accounting Policies and Notes to the Financial Statements.
      I. The annual Project's Financial Statements should include the following:
      II. A Statement of Sources and Uses of funds (by Activity showing Bank and Counterpart Funds separately);
      III. Statement of Cash Position for Project's Funds from all sources;
      IV. Statements reconciling the balances on the various bank accounts (including Bank Dedicated Account) to the bank balances shown on the Statement of Sources and Uses of funds;
      V. Withdrawal Schedule - Bank Grant listing individual withdrawal applications relating to disbursements by the IFR Method, by reference number, date and amount and;
      VI. The Notes to the Financial Statements for the significant accounting policies and all other relevant information
   C. Budget Variance Analysis:
      I. Should be prepared at the end of each month.
      II. Should be prepared by the Accountant, reviewed and approved by the CFO and CEO.
      III. Reports should be ready within one week from the end of month,

## Part 7: Internal Audit

### Internal Audit Policy and Procedures

**Internal Auditing Arrangement:**

ISSF will be responsible for establishing an Internal Audit Department/Function during first year of project implementation, the internal auditor who will be reporting to the Board of ISSF. An effective and strong TORs for a modern internal audit function acceptable to the WB will be submitted to the Bank's no-objection.

Internal Audit Charter:

1. Mission Statement

   The mission of the internal audit is to provide independent and objective reviews and assessments of the activities, operations, financial systems and internal accounting controls of the ISSF. The internal audit Department accomplishes its mission through the conduct of operational, financial and performance audits, selected as the result of a risk identification and assessment process. The resulting schedule of audits is reviewed and approved by the Board of Directors (BOD).

2. Objective

   The Internal Audit department will conduct independent reviews and appraisals of the ISSF procedures and operations. These reviews provide the BOD and the management with an independent appraisal of the various operations and systems of control. The reviews also help to ensure that ISSF resources are used efficiently and effectively while helping the ISSF achieve its mission, as directed by the BOD. The Internal Audit Department/Internal auditor will perform this service with professional care and with minimal disruption to ISSF operations.

3. Responsibility and Authority

   The internal audit function derives its authority directly from the BOD. The Internal Auditor reports administratively and operationally to the chairman and the Board of directors. The scope of Internal Audit's responsibility is defined within this policy. The internal auditor is authorized to conduct a comprehensive internal audit program within ISSF and is responsible for keeping the BOD informed of unusual transactions or other matters of significance.

4. Independence

   In order to maintain independence and objectivity, the internal auditor has no direct responsibility or any authority over the activities or operations that are subject to review, nor should the internal auditor develop or install procedures, prepare records or engage in activities that would normally be subject to review. However, the internal auditor may be consulted when new systems or procedures are designed to ensure they adequately address internal controls.

5. Objectivity
   The internal audit is a service function organized and operated primarily for the purpose of conducting audits, in accordance with professional standards. The evidential matter gathered from these audits forms the basis for furnishing opinions and other relevant information to impacted members of senior management, the President and the BOD. Opinions and other information furnished may attest to the adequacy of internal control, the degree of compliance with established policies and procedures and/or their effectiveness and efficiency in achieving organizational objectives. The internal auditor may also recommend cost effective courses of action for management to consider in improving efficiencies that have been identified during an audit.

6. Confidentiality
   All information obtained during an internal audit is deemed confidential unless otherwise instructed. It is understood that certain items are confidential in nature and special arrangements may be required when examining and reporting on such items. The internal auditor will handle all information obtained during a review in the same careful manner as the original custodian of the information, will respect the ownership of information received and will not disclose information without appropriate authority.
   Audit reports are considered highly confidential. They are distributed exclusively to the BOD any other entity interested in the audit report may gain access by obtaining the approval of the BOD.

7. Code of Ethics
   The internal auditor shall subscribe to the Code of Ethics established by the Institute of Internal Auditors, as well as adhere to the policies set forth by the management of ISSF. In addition, the Internal Auditor will uphold the following:
   a. Integrity. Establish trust and thus provide the basis for reliance on the judgment of Internal Audit. Remain tactful, honest, objective and credible in all relationships as a representative of ISSF
   b. Objectivity. Exhibit the highest level of professional objectivity in gathering, evaluating and communications information about the area under examination. Make balanced assessments of all the relevant circumstances and do not become unduly influenced by individual interests or by others in forming judgments.
   c. Confidentiality. Respect the value and ownership of information received. Do not disclose information without appropriate authority.
   d. Competency. Apply the knowledge, skills and experience required in the performance of internal auditing services and continually improve the proficiency, effectiveness and quality of the services provided.

8. Standards of Conduct
   The internal Auditor will adhere to the following standards of conduct:
   a. Service. Preserve a commitment to carry out all responsibilities with an attitude of service toward ISSF members while maintaining a sincere and dignified attitude.
   b. Excellence. Uphold a high standard of service and a commitment to quality in performing all projects and assignments.

c. Leadership. Provide noteworthy examples which emphasize high ethical and moral standards.
d. Professionalism. Conduct business in a manner that reflects favorably on the ISSF and the individual. Exercise skill, integrity, maturity and tact in all relations.

9. Scope of the Internal Audit Function

While carrying out their duties, the internal auditor is responsible for utilizing a systematic, disciplined approach to evaluating and improving the effectiveness of internal controls and should include the following:

a. Developing and maintaining a comprehensive audit program necessary to ensure compliance with accounting standards, policies and procedures necessary to safeguard ISSF resources.
b. Communicating the results of audits and reviews by preparing timely reports, including recommendations for modifications of management practices, fiscal policies and accounting procedures as warranted by audit findings.
c. Establishing and maintaining a quality assurance program to evaluate the internal auditor operations. This program should include: uniformity of work paper preparation, audit sampling, work paper review, report preparation and review, report communication and issuance and record retention.

10. Responsibility for Detection of Errors or Irregularities

a. The management of the ISSF is responsible for establishing and maintaining controls to discourage perpetuation of fraud. The internal auditor is responsible for examining and evaluating the adequacy and effectiveness of those controls. Audit procedures alone are not designed to guarantee the detection of fraud.
b. An error is an unintentional mistake in financial statements which includes mathematical or clerical mistakes in the underlying records and accounting data from which the financial statements or other reports are prepared, mistakes in the application of accounting principles and oversight or misinterpretation of facts that existed at the time the reports were prepared.
c. An irregularity is an intentional distortion of financial statements or other reported data or the misappropriation of assets.
d. If the internal auditor believes that a material error or an irregularity exists in an area under review or in any other area of the ISSF, the implications of the error or irregularity and its disposition should be reviewed with the CEO.
e. As soon as it has been determined that an irregularity does exist, the internal audit shall notify the Chairman of the BOD that an irregularity has been identified and the audit steps needed to determine the extent of the problem.

11. Services Provided by the internal auditor:

The internal auditor's primary activity is the implementation of a program of regular audits of the ISSF business operations, as outlined below. However, the complete range of services provided by the internal auditor may also include special projects and consultations as directed by the BOD.

a. Operational Audits. Operational audits consist of critical reviews of operating processes and procedures and internal controls that mitigate area specific risks. These audits examine the use of resources to determine if they are being used in the most effective and efficient manner to fulfill the ISSF objectives.
b. Compliance Audits. These audits determine the degree to which areas within ISSF adhere to mandated World Bank and CBJ and JLGC policies and practices. Recommendations usually require

improvements in processes and controls used to ensure compliance with regulations.

c. Financial Audits. These audits review accounting and financial transactions to determine if commitments, authorizations and the receipt and disbursement of funds are properly and accurately recorded and reported. This type of audit also determines if there are sufficient controls over cash and other assets and that there are adequate process controls over the acquisition and use of resources. Unlike external financial audits, internal financial audits do not prepare or express professional opinions on the financial statements fairness.
d. Investigative audits. These audits are conducted to identify existing control weaknesses, assist in determining the amount of loss and recommending corrective measures to prevent additional losses. The internal auditor will also work with outside agencies to determine if misconduct occurred at the ISSF. These types of investigations can encompass misuse of ISSF funds or assets, fraud or potential conflicts of interest.
e. Technology Audits. Technology audits are usually comprised of control reviews of disaster recovery plans, system back up procedures and the general security of data and of the physical plant. The purpose of these audits is to evaluate the accuracy, effectiveness and efficiency of the ISSF's electronic and information processing systems. Professional proficiency is the responsibility of the individual auditor.

The internal auditor will assign each audit to the individual who possess the necessary knowledge, skills and disciplines to conduct the audit properly.
The internal auditor has a professional obligation to schedule and attend on-going professional education forums to ensure they maintain academic proficiency and to advance professionally.
The Internal Auditor is responsible for providing appropriate audit supervision. Supervision is a continuing process, initiated with the planning process and concluding with the completion of the audit assignment. The internal audit will document evidence of supervision and review on all audits. This may be accomplished by signing off on all work papers and audit documents.

## 12. Audit Planning

<u>Develop the Audit Plan</u>
The internal auditor is responsible for developing a risk based Audit Plan that includes areas subject to regulatory review, each fiscal year. The Audit Plan is a written document showing specific audits or projects to be performed by the Internal Audit Department. After review by the Chairman of the BOD, the Audit Plan is presented to BOD for approval.
The development of the Audit Plan includes a review of the ISSF's risk assessment of the key processes. This is a process in which business process are identified and evaluated according to the objectives of the ISSF.
An assessment of the level of risk includes a broad range of risks and associated controls and the Internal Audit is responsible to identify and evaluate exposures to business risk and the controls designed by management to reduce those risks. When doing so, the following factors are considered:

I. Ongoing factors
   a. Financial value
   b. Public image
   c. Process liquidity
   d. Asset liquidity
   e. Budget deviations
   f. Regulatory guidelines.

II. Environmental Risk factors

a. Process stability
b. Recent audit history
c. Executive assessment
d. Political environment
e. Financial markets
f. Technology initiatives.

The majority of audits are planned. However, that does not preclude the internal auditor from conducting unplanned audits. Prior to any audit, the internal auditor will discuss the engagement with the CEO. The discussion will include the scope, purpose and estimated timeframe of the audit. As unplanned projects are required, they are included in the overall plan for the year.

The annual Audit Plan will be submitted to the Board of directors for review and approval. Any proposed changes to the approved Audit Plan will be presented to the Chairman, and to the BOD if needed.

13. Audit Process

Overview and Conduct of the Audit Process

Although every audit project is unique, the audit process is similar for most engagements and usually consists of nine stages. Through these stages the internal auditor will determine ways to minimize risks and increase efficiencies within the area. Client involvement is critical at each stage of the audit process. An audit will result in a certain amount of time being diverted from area personnel's usual routine. One of the key objectives is to minimize this time and avoid disrupting on-going activities.

a. Plan. The internal auditor will develop an audit plan based on a review of all pertinent information. Sources may include, but are not limited to: a risk assessment, internal and external evaluations and management guidance.
b. Notify. The internal auditor will schedule a meeting with the unit manager and the senior managers of the process to be audited. Identify the scope and objectives of the audit, how long it is expected to last and what the responsibilities for all parties are in the audit process. Any factors that may impact the audit should be raised at this time. Factors include vacations, fiscal year end reporting requirements, etc.
c. Test. Testing will include interviews with the staff, review of procedures and manuals, compliance with the ISSF policies and governmental laws and regulations and assessing the adequacy of internal controls.
d. Communicate. Keep the department that is undergoing the audit updated on the status of the audit on a regular basis especially if there are any findings.
e. There may be instances where the findings can be addressed immediately.
f. Draft. The report draft will include the audit Scope and Objectives, Summary and Opinion, Findings and Audit Recommendations.
g. Management Response. Management will receive the audit draft to confirm the facts and respond to the Audit Recommendations. Their response should assign the responsibility and have a specific target date of completion for the corrective actions. The time window for the Management Response is normally 21 calendar days.
h. Review. The final version of the audit will be reviewed and all issues resolved by internal auditor.
i. Distribute. The report is then released to the audited department, and the BOD as part of the agenda at the periodic meetings as requested.
j. Verify. The internal auditor will normally conduct a follow up on the Management Responses to the audit Findings and Recommendations within a reasonable time frame. This subsequent review will be discussed with the involved management and the comments published. The

comments may also be released to the BOD as part of the agenda at the periodic meetings.

14. Audit Procedures

a. Evidential Matter

I. Evidential matter obtained during the course of fieldwork provides the documented basis for the auditor's opinions, observations and recommendations as expressed in the auditor's opinions, observations and recommendations as noted in the audit report. The internal auditor is obligated by professional standards to act objectively, exercise due professional care and collect sufficient and relevant information to provide a sound basis for audit observations and recommendations.

II. Auditors must obtain all evidence necessary for the effective completion of the audit.

III. The decision on how much evidence is enough and what type to seek requires the exercise of the auditor's judgment based on experience, education and intuition. A thorough knowledge of the concepts underlying audit evidence will help the auditor to improve the audit quality and efficiency of the process.

IV. Standards for the Professional Practice of internal auditing require that work papers possess certain attributes to provide a sound basis for audit observations and opinions and to be considered as evidential matter. These attributes are:

- Sufficient information is factual and adequate so that a prudent, informed person would reach the same conclusions as the auditor
- Information is reliable and the best attainable through use of appropriate audit techniques
- Relevant information supports audit findings and recommendations and is consistent with the audit objectives for the audit
- Useful information helps the organization meet its goals. It also provides a reference for the preparer when called upon to answer questions.

b. Types of evidence

If the evidence supports the basic test of sufficiency, competence and relevance, it may be used to support the auditor's findings. The following outlines the different types of evidence obtained during the course of an audit:

I. Physical evidence. Obtained through observation and inquiry

II. Testimonial evidence. Based on interviews and statements form involved persons

III. Documentary evidence. Consists of legislation, reports, minutes, memoranda, contracts, extracts from accounting records, formal charts and specifications of documentation flows, systems design, operational and organizational structure

IV. Analytical evidence. Secured by analysis of information collected by the auditor.

c. Documentation of Evidential Matter

Standards for the Professional Practice of internal auditing require that audit work papers reflect the details of the evidence upon which the auditor has relied. The internal auditor must maintain adequate documentation of the audit, including the basis and extent of planning, the work performed and the results and findings of the audit. This will allow the work papers to serve both as tools to aid the auditor in performing their work and as written evidence of the work done to support the auditor's report. Information included in work papers should be sufficient and relevant to provide a sound basis for audit findings and recommendations.

In the process of collecting evidential matter, the auditor is required to perform audit testing to support all observations and opinions. During the performance of such testing, the auditor is not required to test the population in its entirety. Audit sampling may be employed. Audit sampling is performing an audit test on less than 100% of a population. In “sampling”, the auditor accepts the risk that some or all errors will not be found and the conclusions drawn (i.e. all transactions were proper and accurate) may be wrong. The type of sampling used and the number of items selected should be based on the auditors understanding of the relative risks and exposures of the areas audited.

d. Types of Samples

   I. Statistical or probability sampling. Allows the auditor to stipulate, with a given level of confidence, the condition of a large population by reviewing only a percentage of the total items. Several sampling techniques are available to the auditor.
   II. Attribute sampling. Used when the auditor has identified the expected frequency or occurrence of an event.
   III. Variable sampling. Used when the auditor samples for values in a population which vary from item to item.
   IV. Judgment sampling. Used when it is not essential to have a precise determination of the probable condition of the universe, or where it is not possible, practical or necessary to use statistical sampling.

**The auditor will be requested to provide an opinion on whether the ISSF was in compliance with the eligibility investment criteria in selecting the beneficiary companies.** Furthermore, the audit should express an opinion on the Project’s effectiveness of internal control system. Finally, a management letter shall accompany the audit report, identifying any deficiencies in the control system the auditor finds pertinent, including recommendations for their improvement.

**The Venture Capital/ Funds/ Intermediaries the project has invested in or is financially supported will be required to submit annual audited financial statements to the ISSF.** Financing agreements between the ISSF and investees/beneficiaries will include clauses on the submission of external audit reports.

# PART 8 ENVIRONMENT AND SOCIAL

## 1. NATIONAL LAWS AND WB GUIDELINES

The Environmental and Social Management Framework (ESMF) for the (ISSF) Project ensures that the project activities are compliant with the relevant requirements of national policies, regulations and legislations as well as the World Bank Group (WBG) relevant Operational Policies and Procedures (OPs). It provides an environmental and social management framework for the design and management of the ISSF and provides a practical processing tool during project formulation, design, planning, implementation, and monitoring to ensure that environment and social aspects are duly considered.

Under Jordanian Environmental Law 2006/No. 52, private companies are to undertake an Environmental and Social Screening process. ISSF participating companies would need to be classified according to their potential impacts and appropriate mitigation/rehabilitation measures required. Given the low environmental and social risk of the project, the screening will be done using country systems through the Ministry of Environment.

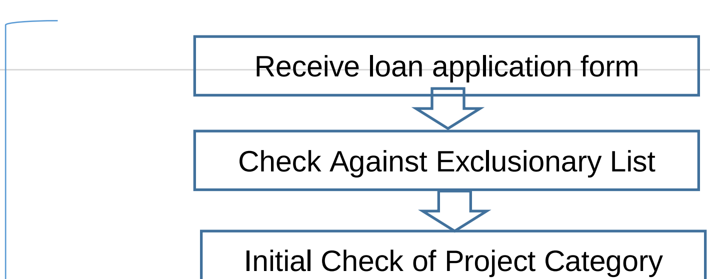
## 2. Procedures for Subproject Assessment and Development of ESMPs

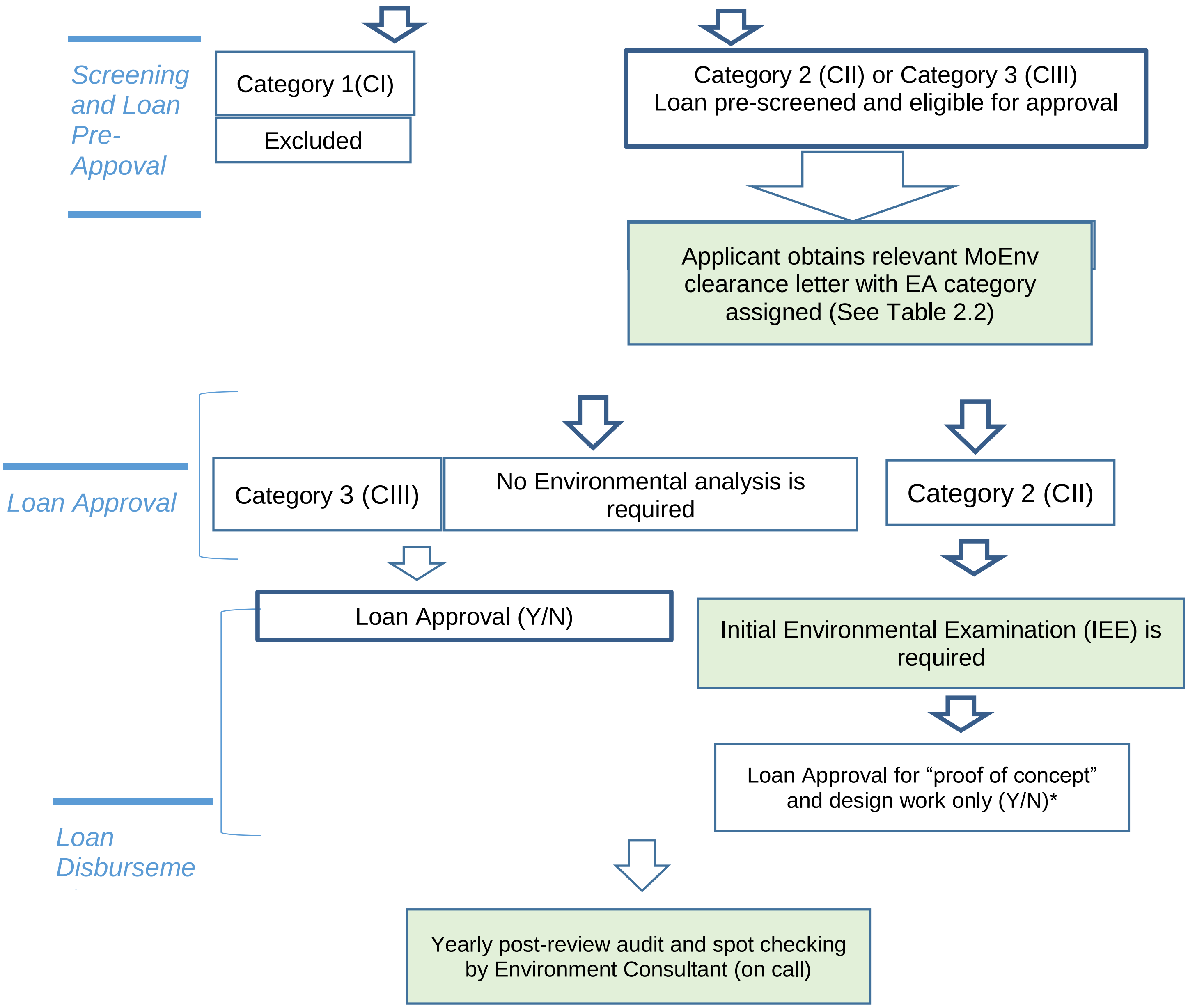
In agreeing to participate in the Project, the JLGC, ISSF and each ISSF partner accepts responsibility to the WBG for mandatory screening, assessment, and management of the environmental and social risks and impacts of proposed transactions taken under the Project in a manner that is consistent with WBG Standards as well as the financial institution's corporate practices and policies for Corporate Responsibility.

a. All investments to SMEs provided under the Project should be subjected to an environmental and social review process (Annex 9).
b. All ISSF partners should use these procedures in reviewing and appraising sub-project investment applications, and to inform sub-investees of environmental requirements for investment appraisal, so that sub-projects can be implemented in an environmentally and socially sound manner.
c. These procedures and requirements incorporate the World Bank's safeguard policies.
d. ESMP preparation guidance is included as Annex 10.
e. An outline for preparation of a sub-project ESMP is included as Annex 11, including guidance on identifying adverse impacts, accompanying mitigation measures, and monitoring indicators.

As with all World Bank-funded projects if new information becomes available that indicates that any of the proposed actions might be "major" and their effects "significant", ISSF shall make the World Bank aware of these actions and potential effects. If such a proposed action has been accepted as a sub-project and the ISSF wishes to continue to support a sub-project recategorized from Category B to Category A, the entire ISSF project would need to be recategorized as a Category A project through a project restructuring.

Diagram 2. PROCEDURE FLOW FOR E+S RISK MANAGEMENT SYSTEM






*A Category II / "B" Environmental Impact Assessment (EIA) will need to be written, reviewed, cleared by the World Bank, and disclosed if the project moves past design phase into construction or implementation.

An Environmental Specialist (ES) consultant will be retained by the ISSF and will report to the ISSF Manager on the below listed activities.

a) Conduct post-review audits of all sub-projects for quality assurance (see Annex 12 for an example);
b) Design and conduct necessary training; and
c) Prepare annual safeguards monitoring reports in a timely manner.

### 3. Social (including Safeguards)

1. The project Investment Officers at the ISSF will be responsible for screening investments in angel/seed and early-stage/VC companies and report to the BOD in accordance with the project ESMF.
2. The screening will ensure activities funded will not involve involuntary resettlement.
3. Transparency of the application process is critical to ensuring that all have equal access to funding.
4. The call for proposals will be widely advertised and will target women's associations and other entities to ensure that information is adequately disseminated amongst potential female entrepreneurs.
5. The project will establish a grievance redress mechanism that will be adequately publicized and will be overseen by the BOD.
6. The JLGC will hire a consultant who will serve as liaison between JLGC and the BOD of ISSF to support the overall monitoring and follow up of ISSF activities, including managing complaints that may arise and work to get them resolved.

### 4. Environment (including Safeguards)

It is expected that the ISSF will retain access to ES consultancy services to advise the ISSF on as "as needed" basis.

a. The screening process for an SME will require documentation that the applicant has completed a Project Information Form (PIF) for the intended project and has submitted it to the Ministry of Environment for screening, per Jordanian law.
b. The ESMF will also serve as a screening and monitoring tool and provides reference to E&S management/mitigation tools. An Inter-ministerial Central Licensing Committee reviews the PIF, and after conducting site surveys determines if the project is classified as category A, B or C. The Ministry issues legally binding guidance on the Scope of the Assessment. The applicant is expected to provide documentation of the Jordanian Ministry of Environment screening and categorization process has been followed prior to proceeding to financing.
c. Potential inclusion of agribusiness companies is expected, however, the expected type of businesses is limited to innovative packaging, processing, marketing and distribution and does not involve production nor use of pesticide. Therefore, OP4.09 Pest Management is not triggered. Any sub-activities which produce or use pesticide will be excluded from the project and listed in the ineligible activities in the ESMF.

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

### 5. Monitoring Plan

a. With regards to safeguards reporting, the ISSF will conduct annual post-review audits and present progress on the Project, the ISSF Manager will be accountable to present the audits to the Board of Directors of the ISSF.

b. A sample monitoring framework is attached as Annex 10. The monitoring framework serves also as a tool for monitoring and evaluating safeguards compliance with the ESMP.
c. The ISSF will include a section on safeguards compliance in each progress report which will be submitted to the Board of Directors.
d. Key objectives of the monitoring plan include:
a. Enabling the ISSF and the World Bank to evaluate the success of mitigation as part of project supervision.
b. Allowing corrective actions to be taken whenever needed.

e. Monitoring will consist of design-phase screening, and for Category B sub-projects, ESMP documentation, Ministry of Environment approval, and ESMP document disclosure.

## 6. MONITORING INDICATORS

The performance indicators below are to be monitored and reported on by the ISSF environmental safeguards consultant to monitor compliance on the ESMP:

1. Subproject screening forms reviewed by ES as a percentage of total subprojects provisionally cleared for ISSF loan application phase, as well as for approval;
2. Subproject screening forms cleared by ES as a percentage of total subprojects as a percentage of total subprojects provisionally cleared for ISSF loan application phase, as well as for approval;
3. Subprojects with filed Ministry of Environment approvals, as a percentage of total subprojects with loans approved.
4. Subprojects with filed IEEs, as a percentage of total subprojects with category B/II classification;

## 7. CAPACITY BUILDING AND TRAINING PLAN

Several training opportunities should be held for the ISSF staff, and interested/potential ISSF partners, covering the following topics:

1. overview of sub-project screening process and subproject categorization, including "negative list";
2. (ii) overview of the ISSF ESMF structure, including positive list of potential subprojects;
3. (iii) training on subproject ESMP preparation.

Training costs will be primarily related to the use of the ES consultant to prepare and execute these workshops as needed.

## 8. COST ESTIMATE

The costs associated with implementing the ESMF will be covered under the standard operating/administrative costs of the private company as the companies are obliged to follow Jordanian Environmental Law.

Table 4: ESMF Implementation Cost Estimate Details

| Activity | Quantity | Unit Rate in US$ | Yearly Cost in US$ | Total US$ (for 6 years) |
|---|---|---|---|---|
| Part-time Follow Up and Monitoring Consultant (at JLGC):<br>- Complaint Handling and Resolution | 1 | 1,500/month | 18,000 | 108,000 |

| | | | | |
|---|---|---|---|---|
| - Environmental Specialist Consultancy Services | 1 | 1,500/month | 18,000 | 108,000 |
| - Environmental post-review audit | 3 | 3,000 | 9,000 | 54,000 |
| - Training workshops | 3 | 2,000 | 6,000 | 36,000 |
| **Total** | | | **51,000** | **306,000** |

## 9. Applicable Requirements

a. The Company will ensure that all projects are reviewed and evaluated against the applicable national laws on environment, health, safety and social issues and any standards established in Jordanian Law. The Company will also ensure that:
    i. Category A (I) projects are excluded from financing (including any project that involves acquisition of land and involuntary resettlement).
    ii. The Jordanian MoEnv Exclusion List for all projects

b. At an initial stage of inquiry, one of the ISSF Investment Officers will apply the ESMP checklist, including the exclusion list (see Annex 9), to the project. If the project involves an excluded activity, the prospective client will be so informed, and further consideration of financing for the project will be terminated. Otherwise, the Investment Officer, with the advisement of the Environmental Specialist consultant as needed, will indicate the Applicable Requirements for the project.

c. When the ISSF Investment Officer indicates, through the sub-project application screening process, that the project does not involve an excluded activity, but is identified as having a potentially substantive E&S risk, the prospective SME will be informed that it must take undertake ESMP mitigation action in accordance with Jordanian law.

d. Prospective SMEs must provide all applicable ESMP-related information to the ISSF and the Investment Officer must have concluded that the Project is expected to meet the ISSF's Applicable Safeguards Requirements (with Corrective Action if required) prior to the Fund's decision to make an investment.

e. Depending on the complexity of the ESMP, Environmental and Social Due Diligence may be carried out by the Environmental Specialist consultant to be retained by the ISSF, and can be a desk review or require a full scale review, to include an interview with the Applicant and/or a site visit.

f. Environmental and Social performance will be evaluated on an annual basis, including status of implementation of any Corrective Actions. The benchmark for performance will be the ongoing compliance against the ISSF's Applicable Safeguards Requirements. The responsibilities for implementation of the Performance evaluation are on:
g. The beneficiary SMEs, who will provide annual reports to the ISSF, who may follow up as required with further queries or site visits; and
h. The ISSF, who will provide biannual progress report to ISSF BOD, to be prepared on the basis of the annual reports provided by the SMEs, as well as the ESDD conducted.

i. All investment agreements will contain appropriate environmental representations, warranties, and covenants requiring that projects are in compliance in all material respects with host country environmental, health, safety and social requirements embodied by state general laws and implementing agencies and conducted in accordance with any Applicable Requirements.

## 10. Organization and Responsibilities

a. For category B sub-projects, one team member in the SME will have oversight for environmental and social issues, and will sign the Company's annual environmental performance report to the JLGC/WB.
b. The responsibilities of this SME team member include:
   - During due diligence, the evaluation of environmental compliance of the SME company with Applicable Requirements;
   - Supervising investment progress against on-going compliance with the Applicable Requirements.
   - The preparation of an annual environmental performance report as part of SME reporting to the ISSF.
c. This will ensure that these procedures are implemented, and that records of environmental reviews are maintained.
d. The Environmental Coordinator (or other designated officer) will ensure that all investment decisions are supported by appropriate due diligence documentation (including, but not limited to, an environmental section in each final Investment Memorandum). The Company will also ensure that the WBG is notified if and when the current Environmental Coordinator leaves that position, and will provide the WBG the name of the new Environmental Coordinator.
e. Legal Counsel will ensure that appropriate environmental representations, warranties, and covenants are incorporated in each SME shareholder agreement.

## 11. Resources and Capabilities

1. The Environmental Coordinator will work with the ISSF management to ensure that adequate Company resources have been committed to allow for the effective implementation of the environmental policy and procedures of the Fund.

2. The Environmental Coordinator (or other designated officer) will need to be technically qualified to be able to carry out the due diligence or review work carried out by a consultant.

3. The Environmental Coordinator will maintain a file of qualified environmental consultants who can be called upon to assist in conducting environmental reviews.

## 12. Records to be maintained

Environmental & Social Due diligence (ESDD) - This is the record of the Company's E&S review of a project at the time of considering of the project for investment and forms E&S Supervision records for projects being supervised.

# PART 9 COMMUNICATION

Communication Strategy and Outreach – to be completed by the ISSF when it is operational

**Results indicators:**

**Results Framework**
**COUNTRY : Jordan**
**Innovative Startups Fund Project**

### Project Development Objectives

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

### Project Development Objective Indicators

| Indicator Name | Core | Unit of Measure | Baseline | End Target | Frequency | Data Source/Methodology | Responsibility for Data Collection |
|---|---|---|---|---|---|---|---|
| Name: Private Capital Mobilized | ✓ | Amount( USD) | 0.00 | 71500000.00 | Semi-annual | Funds portfolio investments/shareholder agreements | Fund manager/JLGC |
| Private Early/Seed Stage Capital Mobilized Through the Project | | Amount( USD) | 0.00 | 38500000.00 | Semi-annual | Shareholders agreements | Fund manager/JLGC |
| Private Venture Capital Mobilized Through the Project | | Amount( USD) | 0.00 | 33000000.00 | Annual | P-P Fund Shareholder Agreement and investment shareholder agreements | JLGC/ISSF |

| Indicator Name | Core | Unit of Measure | Baseline | End Target | Frequency | Data Source/Methodology | Responsibility for Data Collection |
|---|---|---|---|---|---|---|---|
| Description: The core indicator track the amount of direct financing (in the form of equity and/or debt) mobilized by private entities, using private funding, to finance investments within an IBRD/IDA operation or investments (PE, GE, RE, SF, and GU) directly linked to that operation. | | | | | | | |
| **Name:** Beneficiary companies receiving financing through the project | | Number | 0.00 | 200.00 | Annualy | Regular Survey | The JLGC PMU |
| Beneficiary companies receiving private Early/Seed Stage financing through the project | | Number | 0.00 | 160.00 | Annual | Regular survey | ISSF |
| Beneficiary companies receiving private VC financing through the project | | Number | 0.00 | 40.00 | | | |
| Beneficiary companies led by women receiving early stage financing through the project | | Percentage | 0.00 | 25.00 | | | |
| Beneficiary companies led by youth receiving early stage financing through the project | | Percentage | 0.00 | 30.00 | | | |

| Indicator Name | Core | Unit of Measure | Baseline | End Target | Frequency | Data Source/Methodology | Responsibility for Data Collection |
|---|---|---|---|---|---|---|---|
| Beneficiary companies graduating from the Deal Flow component receiving financing through the project | | Number | 0.00 | 20.00 | Annual | Regular Survey | ISSF/JLGC |

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

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Name: Beneficiary companies that introduced a new product or process | | Percentage | 0.00 | 100.00 | Annually | Regular reporting of the project | ISSF/JLGC |

Description: This PDO indicator will track innovation emanating from recipients of Grants and equity investment through the project.

## Intermediate Results Indicators

| Indicator Name | Core | Unit of Measure | Baseline | End Target | Frequency | Data Source/Methodology | Responsibility for Data Collection |
|---|---|---|---|---|---|---|---|
| Name: Total Financial Intermediaries receiving financing through the project | | Number | 0.00 | 10.00 | Annually | Regular Survey | ISSF/JLGC |
| Venture Capital financial intermediaries receiving financing through the | | Number | 0.00 | 4.00 | Annual | Regular Survey | ISSF/JLGC |

| Indicator Name | Core | Unit of Measure | Baseline | End Target | Frequency | Data Source/Methodology | Responsibility for Data Collection |
|---|---|---|---|---|---|---|---|
| project | | | | | | | |
| Early/Seed Stage financial intermediaries receiving financing through the project | | Number | 0.00 | 6.00 | Annually | Regular Survey | ISSF/JLGC |
| Description: This indicator measures the total number of financial intermediaries that receive financing through the project (funds that receive follow-on financing through the project should only be counted once) | | | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Name:** Beneficiaries receiving acceleration services for 4-6 months | | Number | 0.00 | 150.00 | Annual | Regular Survey | ISSF/ Ecosystem service providers |
| Female beneficiaries receiving incubation/acceleration services for 4-6 months | | Percentage | 0.00 | 25.00 | | | |
| Young beneficiaries receiving incubation/acceleration services for 4-6 months | | Percentage | 0.00 | 30.00 | | | |
| Description: Number of startups/ SMEs receiving acceleration services for 4-6 months | | | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Name:** Prospective Angel investors receiving training | | Number | 0.00 | 30.00 | Annual | Pre-Seed Grant Agreements/ Training providers | ISSF |

| Indicator Name | Core | Unit of Measure | Baseline | End Target | Frequency | Data Source/Methodology | Responsibility for Data Collection |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
| Description: Entities receiving grants and Prospective Angel investors receiving training | | | | | | | |
| **Name:** Shareholder or partnership agreements signed/completed with equity finance providers/financial intermediaries | | Number | 0.00 | 2.00 | Quarterly | Shareholder Agreements provided | ISSF/JLGC |
| Description: This measures a key step in setting up the public-private funds | | | | | | | |
| **Name:** Beneficiaries satisfied with services received and performance | | Percentage | 0.00 | 75.00 | Annual | Regular Survey | ISSF/JLGC |
| Description: This indicator measures the performance of the seed, early stage and VC funds' management. The results collected by the ISSF will serve to inform the project design and adjust any elements that might be hampering desired results in terms of participation of financial intermediaries or volume of investment. Since both the ISSF and the WB will have access to this data it is expected that both parties will work together to use these results as a feedback loop into the project. | | | | | | | |
| **Name:** Beneficiary companies receiving IR support and BDS services through the project | | Number | 0.00 | 675.00 | Annual | Regular Survey | ISSF/JLGC |
| Beneficiary companies led by women receiving IR support and BDS services through the | | Percentage | 0.00 | 25.00 | | | |

| Indicator Name | Core | Unit of Measure | Baseline | End Target | Frequency | Data Source/Methodology | Responsibility for Data Collection |
|---|---|---|---|---|---|---|---|
| project | | | | | | | |
| Beneficiary companies led by youth receiving IR support and BDS services through the project | | Percentage | 0.00 | 30.00 | | | |
| Beneficiary companies receiving IR support through the project | | Number | 0.00 | 600.00 | | | |
| Beneficiary companies receiving BDS services through the project | | Number | 0.00 | 75.00 | | | |
| Description: Measures the number of beneficiaries that receive investment readiness training and Business Development Services (BDS) grants as means of support to become ready/eligible for investment through the ISSF | | | | | | | |

Target Values

**Project Development Objective Indicators**

| Indicator Name | Baseline | YR1 | YR2 | YR3 | YR4 | YR5 | End Target |
|---|---|---|---|---|---|---|---|
| Private Capital Mobilized | 0.00 | 20000000.00 | 30000000.00 | 45000000.00 | 55000000.00 | 71500000.00 | 71500000.00 |
| Private Early/Seed Stage Capital Mobilized Through the Project | 0.00 | 10000000.00 | 15000000.00 | 25000000.00 | 30000000.00 | 38500000.00 | 38500000.00 |
| Private Venture Capital Mobilized Through the Project | 0.00 | 10000000.00 | 15000000.00 | 20000000.00 | 25000000.00 | 33000000.00 | 33000000.00 |
| Beneficiary companies receiving financing through the project | 0.00 | 20.00 | 50.00 | 90.00 | 140.00 | 200.00 | 200.00 |
| Beneficiary companies receiving private Early/Seed Stage financing through the project | 0.00 | 40.00 | 72.00 | 112.00 | 144.00 | 160.00 | 160.00 |
| Beneficiary companies receiving private VC financing through the project | 0.00 | 10.00 | 18.00 | 28.00 | 36.00 | 40.00 | 40.00 |
| Beneficiary companies led by women receiving early stage financing through the project | 0.00 | 25.00 | 25.00 | 25.00 | 25.00 | 25.00 | 25.00 |
| Beneficiary companies led by youth receiving early stage financing through the project | 0.00 | 30.00 | 30.00 | 30.00 | 30.00 | 30.00 | 30.00 |
| Beneficiary companies graduating from the Deal Flow component receiving | 0.00 | 0.00 | 5.00 | 10.00 | 15.00 | 20.00 | 20.00 |

| Indicator Name | Baseline | YR1 | YR2 | YR3 | YR4 | YR5 | End Target |
| --- | --- | --- | --- | --- | --- | --- | --- |
| financing through the project | | | | | | | |
| Beneficiary companies that introduced a new product or process | 0.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |

### Intermediate Results Indicators

| Indicator Name | Baseline | YR1 | YR2 | YR3 | YR4 | YR5 | End Target |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Total Financial Intermediaries receiving financing through the project | 0.00 | 1.00 | 4.00 | 7.00 | 10.00 | 10.00 | 10.00 |
| Venture Capital financial intermediaries receiving financing through the project | 0.00 | 1.00 | 2.00 | 3.00 | 4.00 | 4.00 | 4.00 |
| Early/Seed Stage financial intermediaries receiving financing through the project | 0.00 | 2.00 | 3.00 | 4.00 | 5.00 | 6.00 | 6.00 |
| Beneficiaries receiving acceleration services for 4-6 months | 0.00 | 15.00 | 45.00 | 90.00 | 150.00 | 150.00 | 150.00 |
| Female beneficiaries receiving incubation/acceleration services for 4-6 months | 0.00 | 25.00 | 25.00 | 25.00 | 25.00 | 25.00 | 25.00 |
| Young beneficiaries receiving incubation/acceleration services for 4-6 months | 0.00 | 30.00 | 30.00 | 30.00 | 30.00 | 30.00 | 30.00 |
| Prospective Angel investors receiving training | 0.00 | 0.00 | 10.00 | 20.00 | 30.00 | 30.00 | 30.00 |

| Indicator Name | Baseline | YR1 | YR2 | YR3 | YR4 | YR5 | End Target |
|---|---|---|---|---|---|---|---|
| Shareholder or partnership agreements signed/completed with equity finance providers/financial intermediaries | 0.00 | 1.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 |
| Beneficiaries satisfied with services received and performance | 0.00 | 50.00 | 50.00 | 50.00 | 75.00 | 75.00 | 75.00 |
| Beneficiary companies receiving IR support and BDS services through the project | 0.00 | 130.00 | 265.00 | 400.00 | 535.00 | 675.00 | 675.00 |
| Beneficiary companies led by women receiving IR support and BDS services through the project | 0.00 | 25.00 | 25.00 | 25.00 | 25.00 | 25.00 | 25.00 |
| Beneficiary companies led by youth receiving IR support and BDS services through the project | 0.00 | 30.00 | 30.00 | 30.00 | 30.00 | 30.00 | 30.00 |
| Beneficiary companies receiving IR support through the project | 0.00 | 120.00 | 240.00 | 360.00 | 480.00 | 600.00 | 600.00 |
| Beneficiary companies receiving BDS services through the project | 0.00 | 10.00 | 25.00 | 40.00 | 55.00 | 75.00 | 75.00 |

## Annex 2: Beneficiary Profile Data (example template)

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

Beneficiary Performance (example template)

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

Innovative Practices in Beneficiaries (example template)

| | |
|---|---|
| Do you currently have any | |

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

## Annex 3: TORs for financial Auditor

### TOR

**External Auditor Terms of Reference (ToR)**
**TERMS OF REFERENCE (TOR)**
**FOR THE AUDIT OF THE [NAME OF PROJECT] FOR THE YEAR (PERIOD) ENDED [MONTH DATE, YEAR]**

**[This TOR is applicable to new operation/Project using new the disbursement guidelines]**
**Background including Project Budget (Components activities)**

The TOR should provide appropriate background information of the Project, including:

i. A brief description of the Project including information on Project sources of funding;
ii. A general description of implementation arrangements, including the organizational structure of implementing entities
iii. List the source and total amount of funds for the period subject to audit under this TOR
iv. Total disbursements / expenditures for the period subject to audit

Objective

The primary objective of the audit engagement is to enable the auditor to express a professional opinion as to whether (i) the Project Financial Statements (PFS) of the [NAME OF PROJECT] (the Project) as of [MONTH DATE, YEAR] and for the fiscal year then ending, show true and fair view of the Project's financial position at the end of each fiscal year and of the funds received and expenditures for the period. (ii) Expenditures reimbursed on basis of Statements of Expenditures (SOE) or Reviewed Interim Financial Reports (IFRs) are eligible to Bank financing and are reflected on the PFS, and (iii) the Designated Accounts have been used exclusively for payment of eligible expenditures as reflected in the PFS, and (iv) The Project's accounting system (books and records) provides the basis for the preparation of the PFS, was established to record the financial transactions of the Project, and is maintained by the Project's implementing agency [NAME OF PROJECT IMPLEMENTING AGENCY]. For this purpose, the auditor shall carry out whatever necessary examinations of the statements and underlying records and control systems. The Audit opinion should also state whether the Procurement Guidelines of IDA have been properly applied.

Scope

The audit will be conducted in accordance with International Standards on Auditing (ISA) as published by the International Auditing and Assurance Standards Board of the International Federation of Accountants (IFAC), with special reference to ISA 800 (Auditor's Report on Special Purpose Audit Engagements) and to relevant World Bank guidelines. In conducting the Project audit, special attention should be paid to the following:

i. External funds have been used in accordance with the conditions of the relevant general conditions, relevant financing agreements and disbursement letter, with due attention to economy and efficiency, and only for the purposes for which the financing was provided. Relevant general conditions and financing agreements are [CITE RELEVANT GENERAL CONDITIONS AND FINANCING AGREEMENTS];
ii. Counterpart funds have been provided and used in accordance with the relevant general conditions, relevant financing agreements and disbursement letter, and only for the purposes for which they were provided;
iii. Goods and services financed have been procured in accordance with the relevant general conditions, relevant financing agreements and disbursement letter;
iv. Necessary supporting documents, records, and accounts have been kept in respect of all Project ventures including expenditures reported via Summary Report (or Interim Reviewed Financial Reports (Interim Reports)) if used as the basis of disbursement), or

Designated Accounts (DAs). Clear linkages should exist between the accounting records and the financial reports presented to the Bank.

v. Where Designated Accounts have been used, they have been maintained in accordance with the provisions of the relevant general conditions, relevant financing agreements and disbursement letter.

vi. The PFS have been prepared in accordance with generally accepted accounting principles and practices and relevant World Bank guidelines, and give a true and fair view of the financial position of the Project as of [MONTH DATE, YEAR] and of the resources and expenditures for the fiscal year then ending.

vii. (STATE SPECIFIC Review the compliance on each of the financial covenants in the SECTION OF LOAN/FINANCING AGREEMENT and list, as necessary).

viii. Ensure conducting field visits with clear mandates to verify physical progress. In this context, auditors should use relevant technical specialists as needed

Quarterly Review of Interim Financial Reports

The auditor will be expected to carry out a review for the Interim Financial Report (IFRs) submitted as a basis for Disbursement every Quarter. The Quarterly Review of IFRs will be part and parcel of the end of year financial audit. The objective of the interim audit is to ascertain the compliance with the terms of funding agreements. More specifically, it aims to ensure that disbursements were executed in accordance with procedures agreed to with the loan grantor, that resources received were used for eligible expenditures as spelled out in the Project Papers and the Grant Agreements and are in compliance with the agreed upon requirements.

Project Financial Statements

The Project Financial Statements should include

a) Summary of Funds received, showing the World Bank, and counterpart funds separately.

b) Summary of Expenditures shown under the main Project headings and by main categories of expenditures by activity, both for the current fiscal year, previous fiscal year, and accumulated to-date; (Funds Disbursed related to each Donor).

c) Summary of Summary Reports (Reviewed IFRs) used as the basis for the submission of withdrawal applications;

d) Statement of Designated Accounts; and

e) Balance Sheet showing Accumulated Funds of the Project, bank balances, other assets of the Project, and liabilities, if any.

Summary Reports (or Interim Reviewed Financial Reports (interim reports) if used as the basis of disbursement)

As part of the audit of the PFS, the auditor is required to audit all Summary Reports and Interim Reviewed Financial Reports (Interim Reports) used as the basis for the submission of withdrawal applications.

These Summary Reports (or Interim Reports) should be compared for Project eligibility with the relevant general conditions, relevant financing agreements, and disbursement letter, and with reference to the Project Appraisal Document for guidance when considered necessary. Where ineligible expenditures are identified as having been included in withdrawal applications and reimbursed against, these should be separately noted in separate note disclosures and also in the management letter, by the auditor.

The Project Financial Statements (or included within the notes to the Project financial statements)

should be a schedule listing individual Summary Reports (or Interim Reports if used as the basis of disbursement) withdrawal applications by specific reference number and amount.
The auditor should pay particular attention as to whether:

a) The Summary Reports (or Interim Reports) have been prepared in accordance with the provisions of the relevant financing agreement.
b) Expenditures have been made wholly and necessarily for the realization of Project objectives.
c) Information and explanation necessary for the purpose of the audit have been obtained;
d) Supporting records and documents necessary for the purpose of the audit have been retained, and
e) The Summary Reports (or Interim Reports) can be relied upon to support the related withdrawal applications.

Designated Accounts

In conjunction with the audit of the Project Financial Statements, the auditor is also required to audit the activities of the Designated Accounts associated with the Project. The Designated Accounts usually comprise

a) Deposits and replenishments received from the Bank;
b) Payments substantiated by withdrawal applications;
c) Interest that may be earned from the balances and which belong to the borrower; and
d) The remaining balances at the end of each fiscal year.

The auditor should pay particular attention as to the compliance with the Bank's procedures and the balances of the Designated Accounts at the end of the fiscal year (or period). The auditor should examine the eligibility of financial transactions during the period under examination and fund balances at the end of such a period, the operation and use of the DAs in accordance with the relevant general conditions, relevant financing agreements and disbursement letter, and the adequacy of internal controls for this type of disbursement mechanism.
For this Project, the Designated Accounts are referred to in [CITE RELEVANT CLAUSES] of the relevant general conditions, relevant financing agreements and disbursement letter.

Audit Deliverables

The auditors will issue an audit opinion on the [NAME OF PROJECT] Project Financial Statements (refer to the "Project Financial Statements" paragraph above for a definition of the statements included therein). In addition to the audit opinion, the auditor will prepare a "management letter.
A) Audit Report
The auditing report shall include an explicit professional opinion whether (a) the Project's financial statements give a true and fair view of the state of the Project's affairs, (b) expenditures reimbursed on basis of Statements of Expenditures are eligible to Bank financing, and (c) the Designated Accounts have been used exclusively for payment of eligible expenditures, and (d) The Project's accounting system (books and records), was established to record the financial transactions of the Project, and is maintained by the Project's implementing agency. The Auditors should take into account relevant statutory and other mandatory disclosures and accounting requirements stipulated in the GA and express in the report any relevant exception. The audit report shall be produced on yearly basis. Also, a report shall be produced at the completion of the Project.

B) Management Letter

In which the auditor will:

a) give comments and observations on the accounting records, systems, and controls that were examined during the course of the audit;
b) identify specific deficiencies and areas of weakness in systems and controls and make recommendation for their improvement;
c) report on the degree of compliance of each of the financial covenants on the financing agreement and give comments, if any, on internal and external matters affecting such compliance;
d) Communicate matters that have come to attention during the audit which might have a significant impact on the implementation of the project and
e) Bring to the borrower's attention any other matters that the auditors considers pertinent.
f) Include management's comments in the final management letter.

C) Quarterly Reviewed Interim Financial Reports (IFRs)

The financial statements, including the audit opinion, and management letter should be received by the Project's implementing agency, [NAME OF PROJECT IMPLEMENTING AGENCY], no later than six months after the end of the audited fiscal year. The Project's implementing agency should then promptly forward two copies of the audited Project financial statements (including audit opinion) and management letter to the Bank.

General

The responsibility for the preparation of financial statements including adequate disclosure is that of the management of the [NAME OF PROJECT IMPLEMENTING AGENCY]. This includes the maintenance of adequate accounting records and internal controls, the selection and application of accounting policies, and the safeguarding of the assets of the entity. As part of the audit process, the auditor will request from management written confirmation concerning representations made to the auditor in connection with the audit. The [NAME OF PROJECT IMPLEMENTING AGENCY] will co-operate fully with the auditor and will make available to the auditor whatever records, documentation and other information is requested by the auditor in connection with the audit. The auditor should be given access to all legal documents, correspondence, and any other information associated with the Project and deemed necessary by the auditor. Confirmation should also be obtained of amounts disbursed and outstanding at the Bank and of amounts disbursed under [SPECIFY OTHER DONORS, LOANS OR GRANTS, IF ANY].

It is highly desirable that the auditor become familiar with the relevant World Bank guidelines, which explain the Bank's financial reporting and auditing requirements. These guidelines include:

a) Financial Management Practices in World Bank Financed Investment Operations, dated November 2005
b) World Bank Disbursement Handbook for Borrowers
c) World Bank Disbursement Guidelines, dated September 2005
d) Financial Monitoring Report (FMR) - Guidelines to Borrowers dated November 30, 2001.
e) This term of engagement will remain effective for future fiscal years unless it is terminated, amended or superseded.
f) The auditor should understand that working papers under World Bank Project can be subject to the review by Client's and/or World Bank designated staff.

Irregularities Including Fraud

A. The project BOD is responsible for ensuring the establishment and maintenance of an adequate system of internal control. It is also responsible for ensuring compliance with statutory and other regulations, and for the prevention and detection of irregularities, including fraud. Although, the

Auditors are not required to search specifically for such matters, the audit shall be planned and conducted so that the Auditors have a reasonable expectation of detecting material misstatements in the accounts resulting from irregularities, including fraud, or breach of regulations.
B. The Auditors will report in writing any serious weaknesses, fraud, irregularities or accounting break downs that they come across in the normal course of their duties to the designated office holder, JLGC, and the Bank without delay.
<u>Access</u>
A. The Auditors shall have rights of access to the books, accounts, vouchers and related Supplemental Letters, Project Appraisal Document, correspondence, and all other documents in relation of the Project and to such information and explanations as auditors consider necessary to perform their duties and fulfill their responsibilities.
B. In addition, the auditors will be provided with copies of the Bank relevant publications including: (i) World Bank guidelines "Financial Accounting, Reporting, and Auditing Handbook" (FARAH) (ii) The World Bank "Project Financial Management Manual "and (iii) the World Bank "Procurement Guidelines".
C. In turn, on occasions the Bank representatives may wish to meet with Project's auditors, in connection with a visit to the auditors' office, review of the audit working papers, files and discussion of the work performed and conclusion reached by the auditors.
The Auditor should not limit access in any way and must reply to all inquiries raised by the Bank representative. Failure to comply with this provision may disqualify the Auditors from dealing with the all related projects. Formal discussion should normally be arranged through the Project's designated office holder or representative. The Bank will have this exclusive right during performance of the audit and within two years after completion of the audit engagement.
D. Annual Meetings.
The Auditor will discuss the audit report and management report and any part of the business that concerns the Auditor.
E. Termination of Appointment. If there are serious shortcomings on the part of the Auditor, the Governing Body, after consultation with the World Bank, may pass a resolution to remove the Auditors before the expiry of their assignment. Restriction of Auditor's Liability. There is no limitation of the auditors' liability in respect of audit opinions given under this assignment.

**Annex 4: The application process, criteria and conditions for assessment and selection of proposals applying for direct and indirect investment, the role of ISSF as an asset**

**manager, and exit considerations.**

Selection criteria:

Application Procedure

Applications will be called for and considered on a continuous basis from approved investment partners (accelerators, incubators, seed funds, angel networks, early stage and VC funds, and institutional banks, holding companies and investment funds/banks). Should a startups or an SME contact the project directly they would be encouraged to meet with one or more of the approved investment partners to get a commitment in principle for co-investment. Should the entrepreneur be successful in getting the commitment in principle from an approved investment partner, they can then formally approach the ISSF fund with the co-investor to be considered for an indirect equity investment. The ISSF investment committee will consider application for direct investment if the applicant is at “early stage” or above.

Each application will be examined first for eligibility and completeness. Non-eligible applicants should be informed within two weeks that they do not qualify. Eligible applicants with incomplete applications will also be informed within two weeks of the missing information and asked to fill in the gaps.

Eligible and complete applicants will be invited to meet an ISSF senior or associate investment analyst and be informed of the due diligence steps required for each application. They will be informed of the likely timing of the work and when a decision can be expected.

Eligibility for start-ups and SMEs to apply

Start-ups and SMEs that have an offer from an approved investment partner to invest in their business will be eligible to apply. Under the condition that their business has :

a. A Well-defined and plausible technology or business model that could do what is claimed and be produced to sell to a market;
b. A Well-defined and plausible market and customer base who would be interested in buying the product or service which offers performance, cost or other benefits over and above those of current products or other potential market competitors;
c. The business model offers the opportunity to be scaled rapidly, and would provide a profitable surplus to give an attractive return to the financial investor;
d. Sound leadership and management team with the right skills and personal strengths of persistence and determination to continue to build a successful business and realize the value contained in the business idea; and

e. That the proposed expenditure within the project makes sense – and is value for money (e.g. proposed consultancies were in scope, salaries and wages are sensible).
f. Has been registered legally.
g. Operates or intends to commence operations in Jordan in order to generate or expand enterprise production and employment in Jordan; and
h. Does not have participation or ownership by any public entity.

<u>Non-eligible financing</u>

The ISSF will exclude any proposal to finance any business that fall under Category A or B6 of the World Bank Safeguard policies OP/BP 4.01. Those which fall under the following categories:

a. Arms, weapons and munition production or dealing;
b. Prohibited drugs;
c. Real estate purchases and any physical intervention including construction and rehabilitation;
d. Activities that limit or deprive of individual or community's access to land, assets or available resources;
e. Activities that cause displacement of individual or community, involuntary taking of land resulting in relocation or loss of shelter, loss of assets or access to assets, loss of income sources or means of livelihood, whether or not the affected person must move to another location, or involving the involuntary restriction of access to legally designated parks and protected areas;
f. Activities in a protected area or a natural habitat;
g. Activities that have or may have impacts on the health and quality of forests, affect the rights and welfare of people and their level of dependence upon or interaction with forests, or that aim to bring about changes in the management, protection, or utilization of natural forests or plantations, whether they are publicly, privately, or communally owned.
h. Activities that may adversely affect or benefit an indigenous people, or that impinge on the lands owned, used or claimed under adjudication, by indigenous peoples;
i. Activities that involves, or results in diversion or use of surface waters;

[6] Category A: A proposed project is classified under OP/BP 4.01 as Category A if it is likely to have significant adverse environmental impacts that are sensitive, diverse, or unprecedented. These impacts may affect an area broader than the sites or facilities subject to physical works. A potential impact is considered "sensitive" if it may be irreversible (e.g., lead to loss of a major natural habitat) or raise issues covered by OP 4.04, Natural Habitats; OP/BP 4.10, Indigenous Peoples; OP/BP 4.11*, Physical Cultural Resources* or OP 4.12, Involuntary Resettlement. It includes projects which have one or more of the following attributes that make the potential impacts "significant": direct pollutant discharges that are large enough to cause degradation of air, water or soil; large-scale physical disturbance of the site and/or surroundings; extraction, consumption, or conversion of substantial amounts of forest and other natural resources; measurable modification of hydrologic cycle; hazardous materials in more than incidental quantities; and involuntary displacement of people and other significant social disturbances. Category B A proposed project is classified as Category B if its potential adverse environmental impacts on human populations or environmentally important areas--including wetlands, forests, grasslands, and other natural habitats--are less adverse than those of Category A projects. These impacts are site-specific; few if any of them are irreversible; includes projects which may have impacts, but they are less likely to be "significant". Many rehabilitation, maintenance and upgrading projects may require attention to existing environmental problems at the site rather than potential new impacts.

j. Rehabilitation of latrines, septic or sewage systems;
k. Activities that affect dams, weirs, reservoirs or water points;
l. Activities that affect physical cultural resources, which are defined as movable or immovable objects, sites, structures, groups of structures, and natural features and landscapes that have archaeological, paleontological, historical, architectural, religious, aesthetic, or other cultural significance, that may be located in urban or rural settings, and may be above or below ground, or under water, and the cultural interest of which may be at the local, provincial or national level, or within the international community.
m. Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCB, wildlife or products regulated under CITES;
n. Production or trade in alcoholic beverages (excluding beer and wine);
o. Production or trade in tobacco;
p. Gambling, casinos and equivalent enterprises;
q. Production or trade in radioactive materials ;
r. Production or trade in wood or other forestry products other than from sustainably managed forests.
s. Production or trade in unbonded asbestos fibers; and
t. Drift net fishing in the marine environment using nets in excess of 2.5 km. in length.
u. Activities that involve hydroelectric, irrigation, flood control, navigation, drainage, water and sewerage, industrial, and similar activities, including detailed design and engineering studies of such activities, that involve the use or potential pollution of international waterways, defined as: Any river, canal, lake, or similar body of water that forms a boundary between, or any river or body of surface water that flows through, two or more states, any tributary or other body of surface water that is a component of any waterway described above; and any bay, gulf, strait, or channel bounded by two or more states or, if within one state, recognized as a necessary channel of communication between the open sea and other states--and any river flowing into such waters.
v. Activities in disputed areas.
w. Activities involving pest management.
x. Production or activities involving harmful or exploitative forms of forced labor (all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty)/harmful child labor (the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development).
y. Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals. Hazardous chemicals include gasoline, kerosene, and other petroleum products.

**ISSF Investment Partners**

The financing activity relies on the efforts of investment partners both to identify and promote new business projects and to provide active mentoring and professional inputs that characterize truly effective equity investment participation making their investments successful. Hence there will be a register of investment partners that are carefully screened by the ISSF management team before they are approved for participating in this activity.

Potential investment partners will be invited to the launch of the program to apply for approved status and submit evidence to ISSF that will satisfy the four criteria listed below. A marketing and outreach program will be conducted to advertise the ISSF to ensure that potential interested investors are provided an opportunity to apply. A dossier with the above requirements and a recommendation from the ISSF management team will be submitted to the ISSF Investment Committee (IC) for their approval.

If the ISSF management team rejects an investment partner because of failure to meet the criteria, the IC can require ISSF to seek additional information on the applications weaker criteria. However, the IC cannot approve investment partners without ISSF recommendation. The IC can decide not to approve an investor which ISSF recommends for inclusion. In these cases the reason for the rejection will be recorded and the opportunity will be provided for ISSF to present new evidence at subsequent meetings of the IC.

The approved investment partners list will be listed on the project website. The list will be open to new institutions who may apply at any time during the project. The list will be reviewed annually to confirm that each investment partners remains capable of providing the support envisaged in the criteria mentioned above. Should they fail to demonstrate the required capabilities then the IC can authorize their removal from the list.

Criteria for approved investment partners

2.1. The approved investment partners list will be limited to 'institutional investors' which includes (accelerators, incubators, seed funds, angel networks, early stage and VC funds, and institutional banks, holding companies and investment funds/banks) but excludes regular commercial banks and individual investors?. They should have experience in investing in innovative companies and present evidence of their professional capacities and capital availability.

Criteria for selection of investment partners:

Approved investment partners are required to have:

j. A capital structure that allows them to finance high risk start-ups and/or growth-oriented existing companies;
k. The capacity to appraise investment opportunities on a professional basis;
l. The capacity to offer mentorship and other support for the companies and entrepreneurs in which they invest;
m. Availability of additional financing to sustain the company in the event of a change of plans.

<u>Review and Award Process for Proposed Investments</u>

Preliminary application Review by ISSF management team

The ISSF management team will conduct a review of each proposal to ensure it:

a. Meets the eligibility criteria in the eligible SMEs section above
b. Does not trigger any of the Safeguards categories beyond what has been assigned by the World Bank for this project.
c. Provides a sound business case with evidence supporting the analysis of risks and opportunities involved in making the business a success; and
d. The entrepreneur's credentials and background are thoroughly reviewed and checked.

Each proposal will then be submitted to the Investment Committee (IC) with an analysis and recommendation from the ISSF management team.

<u>Investment Committee (IC)</u>

The ISSF financing activity will have an investment committee (IC) of five members, which will review and decide on the investment allocations though a voting system. The IC can make decisions independently as a third party based on the commercial viability of the proposals.

The IC is to be composed of private sector individuals. The members will be acting in their personal capacities, they will not be investors in ISSF companies, and they will be an independent third party with evidence of high accomplishment in their respective fields. The composition of the IC is intended to reassure investment partners of the serious intent behind their decisions, no political interest capture, and good governance of the ISSF funding facility.

The IC will meet as often as needed to ensure rapid decision making on investment proposals. During periods of project implementation where there are no pending decisions the IC will meet once every three months.

Members may attend the meeting using video or audio conference should actual presence be impractical. Members cannot vote if they do not participate (remotely or physically).

IC members will sign a letter of agreement with the terms of appointment, causes for termination of membership and roles and responsibilities.

Two thirds of the IC member appointments will be for a 2-year term, and one third of members will be for a one-year term with the potential for reappointment of any of the initial members if appropriate. Appointments may be staggered to enable full contributions by all concerned and to facilitate the one-third pattern of annual membership as soon as practical.

If a member is judged by the ISSF management team to have acted with a conflict of interest with regards to an entrepreneur or investment his/her membership in the IC will be immediately terminated. The entrepreneur and the partner investor will be disqualified from the funding program and all requisite legal measures will be taken to have the funds returned to ISSF.

Decision Authority of the Investment Committee

The IC will approve an investment should three of its five members agree.

The ISSF management team will submit all applications received for equity investment to the IC. It will do so with a categorization reached after its preliminary review of each submission. There will be three categories:

a. Applicants that are eligible and after full analysis are recommended for investment by ISSF;
b. Applicants that are eligible but after full analysis by ISSF are not considered sound businesses and are not recommended for investment; and
c. Applicants that are not eligible because they fall outside the remit of the program.

In making, the decisions the IC will apply the following process:

i. In the case of the applicants who are categorized by ISSF as eligible and recommended for investment, the IC has the authority to agree to the investment on ISSF's recommendation or to reject the recommendation and not agree to the investment. If the IC does not approve an application it should indicate to ISSF the reasons for the decision and offer the opportunity for additional information that might lead to approval be submitted at subsequent meetings.

ii. In the case of applicants that are categorized as eligible by ISSF but are not considered viable businesses and are not recommended for investment the IC can decide either to agree with ISSF's recommendation and reject the application, or if it believes there may be merit in the application subject to further analysis, refer the application back to ISSF for further review. Again the reason for the different appraisal of the opportunity should be identified as guidance for ISSF to reassess the application.

iii. In the case of applications that do not meet the eligibility criteria ISSF management team will present them to the IC for information only.

### Role of ISSF as Asset Manager

ISSF will set up one or more holding companies in the form of private shareholding companies registered in the name of ISSF as Asset Manager. The purpose of this is to hold the equity investments until they are exited and rolled back for additional investment. Such Holding companies shall adopt this POM and stipulate its functions and operations in accordance with the terms and conditions of the Project Agreement.

ISSF's Role as Asset Manager

The Asset Manager assumes that the primary investment partner will provide the support to the new business. In these circumstances, ISSF can be more passive as an Asset Manager and not get involved in the operations of the business either as a non-executive director or as a strategic partner. However, ISSF has rights and responsibilities that are symmetric to those of the investment partner to ensure both parties have aligned interests. ISSF may choose not to exercise these rights but it will retain them to step in appropriate circumstances.

ISSF will receive regular reports on the performance of the companies (management accounts) where it is a shareholder. A key activity in the management of its portfolio of investments should be a regular structured review of each investment to identify early changes in circumstances that might affect shareholders' interest.

Two circumstances could arise that may require a more active approach and there is merit in reserving the right to be more active should either of these arise.

The first circumstance is where the investment is a significant part of the ISSF portfolio of investments – the preference is for the partner investor to play the active role – but in those cases where ISSF is concerned about their performance ISSF may have a strong interest in stepping in to fill the gap. Provisions should be made in the investment agreement for ISSF to have the right to step in should this arise.

The second circumstance is related to all the other smaller investments where ISSF play a passive role. However, if during the regular monitoring of results of the business in question it becomes evident that the active role is not being carried out satisfactorily by the investment partner, the first recourse is to discuss this concern with the relevant investment partner in the hope that they will play the role envisaged in the activity design. Should, however, the partner fund not make the positive response desired then ISSF will take a decision on a case by case basis on whether it will step in and the level of involvement it will take. Appropriate feedback to the investment committee on the unsatisfactory performance of the investment partner will be recorded and the willingness of the project to enter further investment agreements with this particular investment partner will be changed.

ISSF will also include in the shareholder agreement terms and conditions on which its permission needs to be, given before the company management can act. Typical examples include: issue of new shares or raising new share capital; taking on significant new debt; major capital investments; changes in key personnel; significant changes in product or market direction; major commercial agreements of long duration (such as long leases on property or agency agreements with third parties). This list is not exhaustive but needs to be thought through and incorporated in the model shareholder agreement.

ISSF may follow the lead of the investment partner should they exit from an investment however, ISSF will also retain the right to independently exit from its shareholding with the provisos described below.

## Exit

### Decision on Exit

ISSF has the responsibility of managing through the holding companies exits from equity stakes in the portfolio of companies with the IC involved in sanctioning the proposed actions. The IC will also be responsible for any decisions to add to the investment in any of the companies in which the fund has invested. This will be on the basis of a properly presented investment case and on the recommendation of the ISSF.

Exits precipitated by investment partners:

Such exits advanced by investment partners in any of the companies in the portfolio of investments should give the ISSF the right to:

i. Tag and drag – relates to the agreement of the Investment partner with a third party to exit from their position and the responsibility to include the interests of ISSF as a partner shareholders. If the investment partner agrees a sale of its stake then the ISSF shares have to be included in the deal – i.e. dragged along on the same terms. This protects ISSF from having its shareholding compromised by a side deal about which it is not informed or from finding itself a shareholder with a third party of which it does not approve.

ii. Russian roulette – is a protection for ISSF against being pushed into a deal at an artificially low price by its co-shareholder looking to exercise its option to buy out ISSF at a below realistic valuation; allowing ISSF to buy the other shareholder's equity at the same price that they are offering to buy out ISSF.

ISSF could choose not to exercise this right if the price is acceptable even if it is below a full market value.

### Exit initiated by ISSF

Provided ISSF has the right to independently exit fully and if it considers certain investments to be mature and presenting a good value for its capital stake. Then it can do this for individual businesses.

An alternate method is to assemble a portfolio of shares in a group of businesses and then offer this portfolio as a package to other investors – effectively drawing into the market new players who are looking for a larger scale of deal than that associated with an individual small company.

### Standard Exit Mechanisms led by the investor or entrepreneur

In normal circumstances exit can also be led by the lead investor or the entrepreneur and it is likely to take one of very few forms:

a. Share buy-back – this can be through the company or through the lead investor. The mechanism can be through the injection of new money or through internally generated funds retention over an extended period.

b. Introduction of third party investor – this most often occurs at the next funding round when the successful company is looking for expansion capital and the opportunity can arise for early shareholders to exit, consolidating the interest of the new shareholder.

c. Trade sale – this occurs when the company has built a market position with a good product that is attractive to a company in the same market or related industry and is an attractive target for acquisition.

d. Flotation on an exchange

**Confidentiality**

All information provided to ISSF under this project including information obtained by ISSF through the due diligence process will remain completely confidential and will not be shared beyond the IC members and ISSF management team and staff.

**Sustainability of the ISSF Funding Facility - the Long term and termination**

The ISSF is intended to become a revolving funding facility that would contribute to Lebanon's development on a continuous basis over the long term. The government should not expect to use the returns to pay back the World Bank loan as the ISSF is intended to remain as a public good serving Jordanian economic development on a continuous basis. At the end of the period of the loan, any change in the conditions of the ISSF and its funding objectives will be taken by decision from the Council of Ministers.

The balance between the ISSF activities is expected to produce a positive aggregate return. Returns that come in will be rolled back into the ISSF fund to maintain continuity in the longer term.

Nevertheless, this is a high-risk project by definition (Risk Capital) and it is expected that a number of the investments may not provide any positive return, and some will entail a loss. This is unavoidable as the government through this fund seeks to promote the development of start-ups and early stage enterprises that are very high risk and therefore are underserved by the financing market in Jordan, by filling in the equity financing gap the government will provide the opportunity to many of these companies to survive grow and create jobs.

## Annex 5: Summary of Main Procurement Plan

The below capture the main procurement activities under the project and they relate to component 3:

| ref | Description | Estimated cost USD | Selection end date (contract award) | Duration | |
|---|---|---|---|---|---|
| | | | | Qty | Unit |
| 1 | CEO-ISSF manager | 576,433 | 1-Jul-17 | 72 | Month |
| 2 | Investment team: Coordinator | 393,616 | 1-Sep-17 | 70 | Month |
| 3 | Investment team: Senior No 1 | 281,154 | 30-Sep-17 | 69 | Month |
| 4 | Investment team: Associate No 1 | 224,924 | 30-Sep-17 | 69 | Month |
| 5 | Investment team: Associate No 2 | 224,924 | 30-Sep-17 | 69 | Month |
| 6 | CFO: Senior No 1 | 281,154 | 30-Sep-17 | 69 | Month |
| 7 | Admin No 1 | 67,477 | 1-Sep-17 | 70 | Month |
| 8 | Marketing and PR No 1: Senior | 281,154 | 1-Sep-17 | 70 | Month |
| 9 | Internal Audit (Firm or IC) | 281,154 | 1-Sep-17 | 70 | Month |
| 10 | External Audit (Firm) | 48,036 | 1-Dec-17 | 6 | Year |

Sub-Totals

| | |
|---|---|
| **Staffing** | **2,941,182** |
| **Operating cost** (can be expended later into shopping etc.) | **1,056,794** |
| **Comp. 3 Total** | **3,997,977** |

Annex 6: Budgeted Action Plan for the first 18 month

| Task | Action(s) | Date started | Date completed | Description of expense | Estimated amount |
|---|---|---|---|---|---|
| Subsidiary Agreement (MOPIC-JLGC) | Prepare and review subsidiary agreement and send to WB for review | 15-05-2017 | 08-06-2017 | Legal fees | |
| | sign SA | | | | |
| Shareholder Agreement (JLGC-CBJ-ISSF) | Prepare and review with WB | 15-05-2017 | 08-06-2017 | Legal fees | |
| | Sign | | | | |
| Selection and Appointment of ISSF BOD | Chairman of JLGC to compile a list of names | 10-05-2017 | 15-05-2017 | communication | |
| | Chairman to confirm the interest of suggested BOD members | 15-05-2017 | 01-06-2017 | | |
| | JLGC to announce the board of directors (BOD) | | 08-06-2017 | | |
| | | | | | |
| Preparation of TORs and call for proposals for the ISSF Manager | Chairman to call for a first meeting for the BOD | | 15-06-2017 | | |
| | WB to prepare the TOR and share with the BOD | 15-05-2017 | 21-06-2017 | | |
| | | | | | |
| Evaluation and selection of the ISSF Manager | Select a sub-committee from the BOD to evaluate and select manager | 15-06-2017 | 15-07-2017 | | |
| | | | | | |
| Evaluation and selection of the Chief Financial Officer | ISSF manager to present to BOD | | 30-07-2017 | | |
| | | | | | |
| Selection of the Investment Committee | ISSF manager to nominate and present to BOD | | 01-08-2017 | | |
| | | | | | |
| Financial system in place | CFO to develop financial management system & select financial system to implement | 01-08-2017 | 31-12-2017 | | |
| Selection of ISSF team | | 15-07-2017 | 31-12-2017 | | |
| Launching of ISSF | | | 01-09-2017 | | |
| | | Total | | | |

**Legal Department**
**NEGOTIATED VERSION**
**Natalia Robalino**
**May 11, 2017**

**LOAN NUMBER ______-__**

# Project Agreement

**(Innovative Startups Fund Project)**

**between**

**INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT**

**and**

**JORDAN LOAN GUARANTEE CORPORATION**

**Dated ______ , 20117**

## PROJECT AGREEMENT

Agreement dated ____________, 2017, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank") and the JORDAN LOAN GUARANTEE CORPORATION ("Project Implementing Entity") ("Project Agreement") in connection with the Loan Agreement ("Loan Agreement") of same date between the HASHEMITE KINGDOM OF JORDAN ("Borrower") and the Bank. The Bank and the Project Implementing Entity hereby agree as follows:

### ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to the Loan Agreement) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Loan Agreement or the General Conditions.

### ARTICLE II — PROJECT

2.01. The Project Implementing Entity declares its commitment to the objectives of the Project. To this end, the Project Implementing Entity shall carry out the Project in accordance with the provisions of Article V of the General Conditions, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Bank and the Project Implementing Entity shall otherwise agree, the Project Implementing Entity shall carry out the Project in accordance with the provisions of the Schedule to this Agreement.

### ARTICLE III — REPRESENTATIVE; ADDRESSES

3.01. The Project Implementing Entity's Representative is Secretary General.

3.02. The Bank's Address is:

International Bank for Reconstruction and Development
1818 H Street, NW
Washington, DC 20433
United States of America

| Telex: | Facsimile: |
|---|---|
| 248423(MCI) or 64145(MCI) | 1-202-477-6391 |

3.03. The Project Implementing Entity's Address is:

Jordan Loan Guarantee Corporation
P.O. Box 830703

Amman 11183, Jordan

Telex: Facsimile:

___________ ______________

AGREED at ___________________, _________________, as of the day and year first above written.

**INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT**

**By**

________________________________________
**Authorized Representative**

**Name:** _____________________________

**Title:** _____________________________

**JORDAN LOAN GUARANTEE CORPORATION**

**By**

________________________________________
**Authorized Representative**

**Name:** _____________________________

**Title:** _____________________________

## SCHEDULE

## Execution of the Project

### Section I. Implementation Arrangements

### A. Institutional Arrangements.

**1. JLGC shall:**

(a) implement the Project and establish and maintain throughout the life of the Project an Implementation Group, with a mandate, terms of reference and a composition acceptable to the Bank;

(b) be responsible for overall coordination of the Project and overall management of its activities, including monitoring and evaluation, fiduciary and safeguards management, and reporting requirements;

(c) establish and maintain the ISSF throughout the life of the Project, in a form and with functions and management satisfactory to the Bank and having the capacity to perform its functions under the Project.

(d) in accordance with the criteria established in the POM and acceptable to the Bank, and no later than ninety (90) days from the Effective Date, cause ISSF to recruit a manager of ISSF ("ISSF Manager"), with terms of reference and qualifications satisfactory to the Bank, to manage ISSF's investment activities in accordance with the Project Operations Manual;

(e) no later than ninety (90) days from the Effective Date, recruit a Senior Accountant to assist with execution of the Project;

(f) no later than one hundred eighty (180) days from the Effective Date, procure, install and adopt an Enterprise Resource Planning ("ERP") or other accounting software system for project accounting, budgeting and reporting within ISSF and ensure that the ISSF finance and accounting staff are fully trained in the adopted software system.

(g) select a Board of Directors for ISSF, in a form, composition and with functions satisfactory to the Bank, and comprising individuals with expertise in private sector industry, equity finance, legal and/or accountancy background with the Director General of JLGC acting as the Chairman of the Board.

(h) cause ISSF to hire or appoint an external auditor of ISSF with qualifications and terms of reference acceptable to the Bank no later than six (6) months after the Effective Date, and shall maintain the external auditor with qualifications and terms of reference acceptable to the Bank throughout the life of the Project.

**(i) cause ISSF to hire a consultancy firm- or extend the scope of the external auditor - to perform an annual audit of the ISSF Beneficiaries, to ensure that the selection criteria set forth in the POM are met and the necessary due diligence has been carried out ("Agreed Upon Procedures Review");**

**(j) Within one hundred eighty (180) days from Effective Date, cause the Board of Directors of ISSF to establish and maintain the Investment Committee in a form and with functions, staffing, resources, terms of reference and qualifications satisfactory to the Bank. The Investment Committee shall be chaired by one of the members of the Board of Directors (other than the Chairman of JLGC) and consist of the ISSF Manager and private sector individuals selected by the Board of Directors of ISSF, approved by JLGC and acceptable to the Bank;**

(k) cause ISSF to enter into a management agreement with ISSF Manager ("Management Agreement") on terms and conditions acceptable to the Bank, which shall include, *inter alia*, the following:

**(i) without prejudice to the provisions of subparagraph 2(b) above, the ISSF Manager shall: (A) recruit and maintain, throughout the life of the Project, the necessary personnel, with mandate, terms of reference and composition (including a Financial Officer, an accountant and an internal auditor) acceptable to the Bank; and (B) be responsible for carrying out coordination of the Project and day-to-day management of its activities, including monitoring and evaluation, fiduciary and safeguards management, and reporting requirements.**

**(ii) ISSF Manager shall carry out the Project in accordance with the Project Operations Manual and shall not amend, suspend, abrogate, repeal or waive any provision of the Project Operations Manual without the prior approval of the Bank;**

**(iv) The ISSF Manager shall maintain, throughout Project implementation, pre-screening, evaluation and supervision procedures for ISSF Investments, acceptable to the Bank;**

**(vi) The ISSF Manager shall select Eligible Professional Services Providers for implementing Part B of the Project, in accordance with the Bank-approved guidelines and eligibility criteria, and as reflected in the POM, to carry out Part B of the Project.**

**B. Subsidiary Agreement**

**1. To facilitate the carrying out of the Project, the Borrower shall make the proceeds of the Loan available to the JLGC under a subsidiary agreement between the Borrower and the JLGC, under terms and conditions approved by the Bank, which shall include the following ("Subsidiary Agreement"):**

**a) JLGC shall carry out the Project in accordance with the provisions of the Loan Agreement, this Agreement and the POM;**

**b) JLGC shall exercise its rights under the Subsidiary Agreement in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan;**

**c) except as the Bank shall otherwise agree, JLGC or the Borrower shall not assign, amend abrogate or waive the Subsidiary Agreement or any of its provisions;**

**d) JLGC shall not be liable to the Borrower for any repayments of the Loan Agreement, and shall not be liable to the Borrower for financial losses from ISSF Investments;**

**e) JLGC shall return any profits from ISSF Investments to the Borrower twelve (12) years after the Closing Date or at such later date as the Borrower and JLGC shall agree;**

**f) JLGC shall cause the Board of Directors of ISSSF make any Agreed Exits in accordance with the terms, conditions and methods set forth in the POM, and shall reinvest any amounts arising from such Agreed Exits in further ISSF Investments in accordance with the provisions of the Loan Agreement, this Agreement and the POM, and shall return any amounts remaining from such Agreed Exits to the Borrower twelve (12) years after the Closing Date or at such later date as the Borrower and JLGC shall agree; and**

**g) to facilitate the carrying out of Parts A and B of the Project, JLGC shall:**

**i. establish and maintain the ISSF in accordance with the provisions of the Loan Agreement, this Agreement and the POM;**

**ii. ensure that any key changes to the investment strategies pursued by the Board of Directors of ISSF or ISSF Manager receive prior approval by the Bank, JLGC and the Investment Committee; and**

**2. JLGC shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, JLGC shall not assign, amend, abrogate or waive the Subsidiary Agreement or**

**any of its provisions.**

**C. Anti-Corruption**

**The Project Implementing Entity shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.**

**D. ISSF Sub-Financing**

1. JLGC shall ensure that the ISSF selects ISSF Beneficiaries and approves ISSF Investments and the related ISSF Sub-financing in accordance with the eligibility criteria and terms set forth in the Project Operations Manual, including the requirements that each ISSF Beneficiary must:

(a) have physical operational presence in Jordan and, if the ISSF Beneficiary is a financial intermediary, invest in companies physically located in Jordan;
(b) not have an adverse or disclaimer audit opinion in the last three years;
(c) not be under litigation or on a list of banned or suspended companies by JLGC or by the Bank;
(d) not have any key personnel with a criminal record or who are on any list of banned or suspended individuals by JLGC or by the Bank.

2. JLGC shall ensure that ISSF provides ISSF Sub-Financing to ISSF Beneficiaries in accordance with the eligibility criteria and procedures acceptable to the Bank and included in the POM, which shall include the following:

(a) the choice of ISSF Beneficiaries and the selection of investment activities and sectors of activity shall be undertaken according to industry best practices and on the basis of principles of good governance, equity and transparency;

(b) no investment activity or sector of activity shall benefit from funding under the Project if it belongs to the negative list of activities or sectors of activity deemed ineligible for support under the Project and specified in the ESMF and POM.

3. To facilitate the carrying out of Part A(1) of the Project, JLGC shall ensure that each ISSF Sub-Financing Agreement entered into between the ISSF and each ISSF Beneficiary includes provisions that ensure that the ISSF obtains rights adequate to protect its interests and those of JLGC, the Borrower, and the Bank, including the right to:

(a) terminate the right of the ISSF Beneficiary to use the proceeds of the ISSF Sub-financing, or obtain a refund of all or any part of the amount of the ISSF Sub-financing received, upon the ISSF Beneficiary's failure to perform any of its obligations under the ISSF Sub-Financing Agreement; and

(b) require each ISSF Beneficiary to:

(i) carry out its operations with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards (including Safeguards Instruments) and practices, all satisfactory to the Bank, including in accordance with the provisions of the Anti-Corruption Guidelines applicable to recipients of loan proceeds other than the Borrower;

(ii) provide, promptly as needed, the resources required for the purpose of the ISSF Sub-Financing;

(iii) maintain policies and procedures adequate to enable it to monitor and evaluate its operations, in accordance with indicators acceptable to the Bank;

(iv) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, both in a manner adequate to reflect its operations, resources and expenditures;

(v) have such financial statements audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank, and promptly furnish the statements as so audited to the ISSF and, if so requested, the Bank;

(vi) enable the ISSF and the Bank to inspect the ISSF Beneficiary's operations and any relevant records and documents; and

(vii) prepare and furnish to the Borrower and the Bank all such information as the Borrower or the Bank shall reasonably request relating to the foregoing.

4. JLGC shall ensure that the ISSF shall exercise the rights and carry out the obligations of the ISSF under each ISSF Sub-Financing Agreement in such manner as to protect the interests of JLGC, the Borrower and the Bank and to accomplish the purposes of the Loan.

5. JLGC shall ensure that the ISSF shall not assign, amend, terminate, abrogate, waive or fail to enforce any ISSF Sub-Financing Agreement or any of its provisions, except as the Bank and the Borrower shall otherwise agree.

**E. Investment Support Financing**

To facilitate the carrying out of Part A(2) of the Project, JLGC shall ensure that:

1. The ISSF provides Investment Support Financing to ISSF Beneficiaries, selected in accordance with the eligibility criteria and terms set forth in the Project Operations Manual, and subject to Investment Committee's review, recommendation/ approval; and

2. An Investment Support Financing Agreement is entered into between ISSF and each ISSF Beneficiary, in accordance with the terms and conditions set forth in the Project Operations Manual.

**F. Deal Flow Creation Financing**

To facilitate the carrying out of Part B of the Project, JLGC shall ensure that:

1. The ISSF provides Deal Flow Creation Financing to Eligible Professional Services Providers, selected in accordance with the eligibility criteria and terms set forth in the Project Operations Manual; and

2. A Deal Flow Creation Financing Agreement is entered into between ISSF and each Eligible Professional Services Provider, in accordance with the terms and conditions set forth in the Project Operations Manual.

## E. Safeguards

1. JLGC shall monitor on a continuing basis the implementation of the Safeguard Instruments and ensure that the Project is executed in strict accordance with such Safeguard Instruments, and, upon the occurrence of any event or condition likely to interrupt or interfere with the smooth implementation of the Safeguard Instruments, JLGC shall act promptly to deal with or address such event or condition, and inform the Borrower and the Bank accordingly.

2. For the purposes of any Equity Investment or other activity under the Project, and prior to implementation thereof, JLGC shall ensure that any plan, action plan, fact sheet or other instrument required in terms of any one or more of the Safeguard Instruments, shall have been duly:

    (a) prepared in form and substance satisfactory to the Bank, and, except as otherwise agreed with the Bank, submitted to the Bank for review and approval, and

    (b) thereafter adopted and publicly disclosed.

3. JLGC shall take all measures necessary on its part to regularly collect, compile, and submit to the Bank, on an annual basis, reports on the status of compliance with the Safeguard Instruments, giving details of:

    (a) measures taken in furtherance of such Safeguard Instruments;

    (b) any event or condition which interferes or threatens to interfere with the smooth implementation of such Safeguard Instruments; and

(c) **remedial measures taken or required to be taken to address such event or condition.**

4. Except as the Bank shall otherwise agree in writing, JLGC shall not amend, waive or abrogate, or cause to be amended, waived or abrogated, any provision of the Safeguard Instruments.

### Section II. Project Monitoring, Reporting and Evaluation.

#### A. Project Reports

**1. JLGC shall cause ISSF to monitor and evaluate the progress of the Project and prepare Project Reports the Project in accordance with the provisions of Section 5.08(b) of the General Conditions and on the basis of indicators acceptable to the Bank. Each such Project Report shall cover the period of one calendar semester, and shall be furnished to the Borrower not later two weeks after the end of the period covered by such report for incorporation and forwarding by the Borrower to the Bank of the overall Project Report.**

**2. JLGC shall cause ISSF to provide to the Borrower not later than four months after the Closing Date, for incorporation in the report referred to in Section 5.08(c) of the General Conditions, all such information as the Borrower or the Bank shall reasonably request for the purposes of that Section.**

#### B. Financial Management, Financial Reports and Audits

**1. The Project Implementing Entity shall maintain, and shall cause ISSF to maintain, a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, both in a manner adequate to reflect the operations and financial condition of the Project Implementing Entity and ISSF, including the operations, resources and expenditures related to the Project.**

**2. JLGC shall cause ISSF to prepare and furnish to the Bank not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the semester, in form and substance satisfactory to the Bank.**

**3. The Project Implementing Entity shall cause ISSF to have the Financial Statements audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank. Each audit of these financial statements shall cover the period of one fiscal year of the ISSF. The Project Implementing Entity shall ensure that ISSF's audited financial statements for each period shall be: (a) furnished to the Borrower and the Bank not later than six months after the end of the period; and (b) made publicly available in a timely fashion and in a manner acceptable to the Bank.**

### Section III. Procurement

**All goods and services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Section III of Schedule 2 to the Loan Agreement.**

## Annex 8: The Loan agreement

**Legal Department**
**NEGOTIATED VERSION**
**Natalia Robalino**
**May 11, 2017**

**LOAN NUMBER ______-__**

# Loan Agreement

**(Innovative Startups Fund Project)**

**between**

**THE HASHEMITE KINGDOM OF JORDAN**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT**

**Dated ______ , 2017**

# LOAN AGREEMENT

Agreement dated ____________, 2017, between THE HASHEMITE KINGDOM OF JORDAN ("Borrower") and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank"). The Borrower and the Bank hereby agree as follows:

## ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

**1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.**

**1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.**

## ARTICLE II — LOAN

**2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of Fifty Million United States Dollars ($50,000,000) ("Loan"), to assist in financing the project described in Schedule 1 to this Agreement ("Project").**

**2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.**

**2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.**

**2.04. The Commitment Charge payable by the Borrower shall be equal to one quarter of one percent (0.25%) per annum on the Unwithdrawn Loan Balance.**

**2.05. The interest payable by the Borrower for each Interest Period shall be at a rate equal to the Reference Rate for the Loan Currency plus the Fixed Spread; provided, however, that the interest payable shall in no event be less than zero percent (0%) per annum; and provided furthermore that, upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (e) of the General Conditions.**

**2.06. The Payment Dates are May 15 and November 15 in each year.**

**2.07. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.**

**2.08. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to: (A) all or any portion of the**

**principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa; or (B) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Reference Rate and the Variable Spread to a Variable Rate based on a Fixed Reference Rate and the Variable Spread, or vice versa; or (C) all of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Variable Spread to a Variable Rate based on a Fixed Spread; and (iii) the setting of limits on the Variable Rate or the Reference Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate or the Reference Rate.**

**(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.**

## ARTICLE III — PROJECT

3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall carry out the Project through the JLGC in accordance with the provisions of Article V of the General Conditions and the Project Agreement.

3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

## ARTICLE IV — REMEDIES OF THE BANK

**4.01. The Additional Events of Suspension consist of the following:**

**(a) The JLGC's Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the JLGC to perform any of its obligations under the Project Agreement.**

**(b) JLGC has failed to comply with any of its obligations under the Subsidiary Agreement.**

**(c) The Articles of Association establishing ISSF have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the JLGC to perform any of its obligations under the Project Agreement.**

**(d) The Management Agreement between ISSF and the ISSF Manager has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the JLGC to perform any of its obligations under the Project Agreement.**

**4.03. The Additional Event of Acceleration consists of the following, namely, that either of the events specified in paragraph (a) and (b) of Section 4.01 of this Agreement has occurred.**

## ARTICLE V —EFFECTIVENESS; TERMINATION

**5.01. The Additional Legal Matters consists of the following.**

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

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

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

**(d) The Articles of Association and Memorandum of Association have been signed by JLGC and the Central Bank of Jordan ("CBJ") and are legally binding on JLGC and the CBJ in accordance with their respective terms.**

**5.02. The Effectiveness Deadline is the date one hundred twenty (120) days after the date of this Agreement.**

## ARTICLE VI — REPRESENTATIVE; ADDRESSES

**6.01. The Borrower's Representative is the Minister of Planning and International Cooperation.**

**6.02. The Borrower's Address is:**

**Ministry of Planning and International Cooperation**
**Post office Box 555**
**Amman, 11118**
**The Hashemite Kingdom of Jordan**

**Facsimile:**

**962-6-464 9341**

**6.03. The Bank's Address is:**

**International Bank for Reconstruction and Development**
**1818 H Street, N.W.**
**Washington, D.C. 20433**
**United States of America**

| Cable address: | Telex: | Facsimile: |
|---|---|---|
| INTBAFRAD | 248423(MCI) or | 1-202-477-6391 |

**Washington, D.C. 64145(MCI)**

**AGREED at ________________, __________, as of the day and year first above written.**

**THE HASHEMITE KINGDOM OF JORDAN**

**By**

__________________________________________

**Authorized Representative**

**Name:** ______________________________

**Title:** ______________________________

**INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT**

**By**

__________________________________________

**Authorized Representative**

**Name:** ______________________________

**Title:** ______________________________

## SCHEDULE 1

### Project Description

**The objective of the Project is to increase private early stage equity finance for innovative small and medium enterprises ("SMEs").**

**The Project consists of the following parts:**

**<u>Part A</u>: <u>Equity/Quasi Equity Financing Program</u>**

1. **Establishment and operation of a legal and financial mechanism, namely an Innovative Startups and SMEs Fund ("ISSF"), designed to leverage both public and private sources of funding by providing equity and quasi-equity capital financing ("ISSF Investments") to financial intermediaries and/or to young innovative SMEs ("ISSF Beneficiaries").**

2. **Provision of financing to ISSF Beneficiaries to cover costs incurred by them associated with starting up and commercializing their business activities, including, *inter alia*, costs related to registering and maintaining intellectual property rights, field testing of products in the new markets, and back office support.**

**<u>Part B</u>: <u>Deal flow creation support</u>**

**Provision of financing to selected professional support providers ("Eligible Professional Services Providers"), including, *inter alia*, accelerators, incubators and business development support entities to implement: (a) incubation and acceleration programs for entrepreneurs; (b) investment readiness and business development services for young and established SMEs; and (c) establishment and maintenance of Jordanian-based business angel groups, training and mentoring of angel group members and managers.**

**<u>Part C</u>: <u>Project Management, Coordination and Monitoring and Evaluation</u>**

**Provision of technical advisory services and material assistance to support the management, coordination, and monitoring and evaluation of the Project, and to cover the Project- related management and Operating Costs, including costs incurred by JLGC in setting up ISSF, and Incremental Fees.**

## SCHEDULE 2

### Project Execution

**Section I. Implementation Arrangements**

**A. Institutional Arrangements.**

1. The Borrower, through its Ministry of Planning and International Cooperation, shall:

(a) cause the Project to be carried out by JLGC (the "Project Implementing Entity");

(b) no later than forty-five (45) days from the Effective Date, enter into a tripartite agreement with the Central Bank of Jordan ("CBJ") and JLGC, whereby the CBJ agrees to provide financing to JLGC in an amount equivalent to Thirteen Million Eight Hundred Eighty Thousand U.S. Dollars ($13,880,000) ("Co-Financing") from CBJ's own resources, on terms and conditions acceptable to the Bank, to cover the projected counterpart financing requirements;

(c) establish and maintain throughout the life of the Project a Monitoring Committee to monitor progress and implementation of the Project. The Monitoring Committee shall include representatives, *inter alia*, of JLGC, Ministry of Planning and International Cooperation, Ministry of Finance, and Ministry of Industry and Trade, CBJ.

2. The Borrower shall ensure that JLGC:

(a) implements the Project and establishes and maintains throughout the life of the Project an Implementation Group, with a mandate, terms of reference and a composition acceptable to the Bank;

(b) is responsible for overall coordination of the Project and overall management of its activities, including monitoring and evaluation, fiduciary and safeguards management, and reporting requirements

(c) establishes and maintains the ISSF throughout the life of the Project, in a form and with functions and management satisfactory to the Bank and having the capacity to perform its functions under Components 1 and 2 of the Project;

(d) in accordance with the criteria established in the POM and acceptable to the Bank, and no later than ninety (90) days from the Effective Date, will cause ISSF to recruit a manager of ISSF ("ISSF Manager"), with terms of reference and qualifications satisfactory to the Bank, to manage ISSF's investment activities in accordance with the Project Operations Manual;

(e) no later than ninety (90) days from the Effective Date, recruits a Senior Accountant to assist with execution of the Project;

(f) no later than one hundred eighty (180) days from the Effective Date, procures, installs and adopts an Enterprise Resource Planning ("ERP") or other accounting software system for project accounting, budgeting and reporting within ISSF and ensures that the ISSF finance and accounting staff are fully trained in the adopted software system;

(g) selects a Board of Directors for ISSF, in a form, composition and with functions satisfactory to the Bank, and comprising individuals with expertise in private sector industry, equity finance, legal, and/or accountancy background with the Director General of JLGC acting as the Chairman of the Board; and

(h) causes ISSF to hire an external auditor of ISSF with qualifications and terms of reference acceptable to the Bank no later than six (6) months after the Effective Date and shall not change said external auditor or revise or amend its terms of reference, throughout the life of the Project, without the approval of the Bank.

**(i) causes ISSF to hire a consultancy firm- or extend the scope of the external auditor - to perform an annual audit of the ISSF Beneficiaries, to ensure that the selection criteria set forth in the POM are met and the necessary due diligence has been carried out ("Agreed Upon Procedures Review");**

**(j) Within one hundred eighty (180) days from Effective Date, causes the Board of Directors of ISSF to establish and maintain the Investment Committee in a form and with functions, staffing, resources, terms of reference and qualifications satisfactory to the Bank. The Investment Committee shall be chaired by one of the members of the Board of Directors (other than the Chairman of JLGC) and consist of the ISSF Manager and private sector individuals selected by the Board of Directors of ISSF, approved by JLGC and acceptable to the Bank;**

(k) causes ISSF to enter into a management agreement with ISSF Manager ("Management Agreement") on terms and conditions acceptable to the Bank, which shall include, *inter alia*, the following:

**(i) without prejudice to the provisions of subparagraph 2(b) above, the ISSF Manager shall: (A) recruit and maintain, throughout the life of the Project, the necessary personnel, with mandate, terms of reference and composition (including a Financial Officer, an accountant and an internal auditor) acceptable to the Bank; and (B) be responsible for carrying out coordination of the Project and day-to-day management of its activities, including monitoring and evaluation, fiduciary and safeguards management, and reporting requirements.**

**(ii) ISSF Manager shall carry out the Project in accordance with the Project Operations Manual and shall not amend, suspend, abrogate, repeal or waive any provision of the Project Operations Manual without the prior approval of the Bank;**

**(iv) The ISSF Manager shall maintain, throughout Project implementation, pre-screening, evaluation and supervision procedures for ISSF Investments, acceptable to the Bank;**

**(vi) The ISSF Manager shall select Eligible Professional Services Providers for implementing Part B of the Project, in accordance with the Bank-approved guidelines and eligibility criteria, and as reflected in the POM, to carry out Part B of the Project.**

3. For the purposes of Project implementation, the Borrower shall ensure that:

(a) JLGC enters into a Project Agreement with the Bank;

(b) JLGC ensures that ISSF carry out the Project in accordance with the Project Operations Manual and the Project Agreement and does not amend, suspend, abrogate, repeal or waive any provision of the Project Operations Manual without the prior approval of the Bank;

(c) JLGC monitors and manages the Designated Account in accordance with the provisions of this Agreement, the Project Agreement and the POM.

**B. Subsidiary Agreement**

**1. To facilitate the carrying out of the Project, the Borrower shall make the proceeds of the Loan available to JLGC under a subsidiary agreement between the Borrower and JLGC ("Subsidiary Agreement"), under terms and conditions approved by the Bank, which shall include the following:**

**h) JLGC shall carry out the Project in accordance with the provisions of this Agreement, the Project Agreement and the POM;**

**i) JLGC shall exercise its rights under the Subsidiary Agreement in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan;**

**j) except as the Bank shall otherwise agree, JLGC or the Borrower shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions;**

**k) JLGC shall not be liable to the Borrower for any Loan Payments, and shall not be liable to the Borrower for financial losses from ISSF Investments;**

**l) JLGC shall return any profits from ISSF Investments to the Borrower twelve (12) years after the Closing Date or at such later date as the Borrower and JLGC shall agree;**

**m) JLGC shall cause the Board of Directors of ISSF to make any Agreed Exits in accordance with the terms, conditions and methods set forth in the POM, and shall reinvest any amounts arising from such Agreed Exits in further ISSF Investments in accordance with the provisions of this Agreement, the Project Agreement and the POM, and shall return any amounts remaining from such Agreed Exits to the Borrower twelve (12) years after the Closing Date or at such later date as the Borrower and JLGC shall agree; and**

**n) to facilitate the carrying out of Parts A and B of the Project, JLGC shall:**

**iii. establish and maintain the ISSF in accordance with the provisions of this Agreement, the Project Agreement and the POM;**

**iv. ensure that any key changes to the investment strategies pursued by the Board of Directors of ISSF or ISSF Manager receive prior approval by the Bank, JLGC and the Investment Committee; and**

**2. The Borrower shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.**

**C. Anti-Corruption**

The Borrower shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

**D. ISSF Sub-Financing**

**6. The Borrower, through JLGC, shall ensure that ISSF selects ISSF Beneficiaries and approves ISSF Investments and the related ISSF Sub-financing in accordance with the eligibility criteria, terms and investment guidelines set forth in the Project Operations Manual, including the requirements that each ISSF Beneficiary must:**

**(e) have physical operational presence in Jordan and, if the ISSF Beneficiary is a financial intermediary, invest in companies physically located in Jordan;**

**(f) not have an adverse or disclaimer audit opinion in the last three years;**

**(g) not be under litigation or on a list of banned or suspended companies by JLGC or by the Bank;**

**(h) not have any key personnel with a criminal record or who are on any list of banned or suspended individuals by JLGC or by the Bank.**

**7. The Borrower shall ensure, through JLGC, that ISSF provides ISSF Sub-Financing to ISSF Beneficiaries in accordance with the eligibility criteria, procedures and investment guidelines acceptable to the Bank and included in the POM, which shall include the following:**

**(c) the choice of ISSF Beneficiaries and the selection of investment activities and sectors of activity shall be undertaken according to industry best practices and on the basis of principles of good governance, equity and transparency;**

**(d) no investment activity or sector of activity shall benefit from funding under the Project if it belongs to the negative list of activities or sectors of activity deemed ineligible for support under the Project and specified in the ESMF and POM;**

**8. To facilitate the carrying out of Part A(1) of the Project, the Borrower shall cause JLGC to ensure that each ISSF Sub-Financing Agreement entered into between the ISSF and each ISSF Beneficiary includes provisions that ensure that the ISSF obtains rights adequate to protect its interests and those of JLGC, the Borrower, and the Bank, including the right to:**

(c) terminate the right of the ISSF Beneficiary to use the proceeds of the ISSF Sub-financing, or obtain a refund of all or any part of the amount of the ISSF Sub-financing received, upon the ISSF Beneficiary's failure to perform any of its obligations under the ISSF Sub-Financing Agreement; and

(d) require each ISSF Beneficiary to:

(i) carry out its operations with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards (including Safeguards Instruments) and practices, all satisfactory to the Bank, including in accordance with the provisions of the Anti-Corruption Guidelines applicable to recipients of loan proceeds other than the Borrower;

(viii) provide, promptly as needed, the resources required for the purpose of the ISSF Sub-Financing;

(ix) maintain policies and procedures adequate to enable it to monitor and evaluate its operations, in accordance with indicators acceptable to the Bank;

(x) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, both in a manner adequate to reflect its operations, resources and expenditures;

(xi) have such financial statements audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank, and promptly furnish the statements as so audited to the ISSF and, if so requested, the Bank;

(xii) enable the ISSF and the Bank to inspect the ISSF Beneficiary's operations and any relevant records and documents; and

(xiii) prepare and furnish to the Borrower and the Bank all such information as the Borrower or the Bank shall reasonably request relating to the foregoing.

9. The Borrower shall cause JLGC to ensure that ISSF shall exercise the rights and carry out the obligations of the ISSF under each ISSF Sub-Financing Agreement in such manner as to protect the interests of JLGC, the Borrower and the Bank and to accomplish the purposes of the Loan.

10. The Borrower shall cause JLGC to ensure that the ISSF shall not assign, amend, terminate, abrogate, waive or fail to enforce any ISSF Sub-Financing Agreement or any of its provisions, except as the Bank and the Borrower shall otherwise agree.

**E. Investment Support Financing**

To facilitate the carrying out of Part A(2) of the Project, the Borrower, through JLGC, shall ensure that:

1. The ISSF provides Investment Support Financing to ISSF Beneficiaries, selected in accordance with the eligibility criteria and terms set forth in the Project Operations Manual, and subject to Investment Committee's review, recommendation/ approval; and

2. An Investment Support Financing Agreement is entered into between ISSF and each ISSF Beneficiary, in accordance with terms and conditions set forth in the Project Operations Manual.

**F. Deal Flow Creation Financing**

To facilitate the carrying out of Part B of the Project, the Borrower, through JLGC, shall ensure that:

3. The ISSF provides Deal Flow Creation Financing to Eligible Professional Services Providers, selected in accordance with the eligibility criteria and terms set forth in the Project Operations Manual; and

4. A Deal Flow Creation Financing Agreement is entered into between ISSF and each Eligible Professional Services Provider, in accordance with the terms and conditions set forth in the Project Operations Manual.

**G. Safeguards.**

1. The Borrower shall cause JLGC to monitor on a continuing basis the implementation of the Safeguard Instruments and ensure that the Project is executed in strict accordance with such Safeguard Instruments, and, upon the occurrence of any event or condition likely to interrupt or interfere with the smooth implementation of the Safeguard Instruments, the Borrower shall cause JLGC to act promptly to deal with or address such event or condition, and inform the Borrower and the Bank accordingly.

2. For the purposes of any ISSF Investment or other activity under the Project, and prior to implementation thereof, the Borrower shall ensure that any plan, action plan, fact sheet or other instrument required in terms of any one or more of the Safeguard Instruments, shall have been duly:

(a) prepared in form and substance satisfactory to the Bank, and, except as otherwise agreed with the Bank, submitted to the Bank for review and approval, and

(b) thereafter adopted and publicly disclosed.

3. The Borrower shall cause JLGC to take all measures necessary on its part to regularly collect, compile, and submit to the Bank, on an annual basis, reports on the status of compliance with the Safeguard Instruments, giving details of:

(a) measures taken in furtherance of such Safeguard Instruments;

(b) any event or condition which interferes or threatens to interfere with the smooth implementation of such Safeguard Instruments; and

**(c) remedial measures taken or required to be taken to address such event or condition.**

4. Except as the Bank shall otherwise agree in writing, the Borrower shall not amend, waive or abrogate, or cause to be amended, waived or abrogated, any provision of the Safeguard Instruments.

**Section II. <u>Project Monitoring Reporting and Evaluation</u>**

**A. Project Reports**

**1. The Borrower shall cause JLGC to monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions, and on the basis of indicators acceptable to the Bank and set forth in the Project Operations Manual. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than forty-five (45) days after the end of the period covered by such report.**

### B. Financial Management, Financial Reports and Audits

**1. The Borrower shall cause both JLGC and ISSF to maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.**

**2. Without limitation on the provisions of Part A of this Section, the Borrower shall cause JLGC and ISSF to prepare and furnish to the Bank not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the semester, in form and substance satisfactory to the Bank.**

**5. The Borrower, through JLGC, shall cause ISSF to have the Project's Financial Statements audited in accordance with the provisions of Section 5.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of ISSF. The audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period.**

**6. The Borrower shall ensure that each audit referred to in the preceding paragraph shall include an audit of Project Accounts, and of Eligible Expenditures , conducted in accordance with guidelines and modalities agreed with the Bank, and reflected in the external auditor's terms of reference.**

### Section III. Procurement

All goods, works, non-consulting services and consulting services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in the World Bank Procurement Regulations for Borrowers under Investment Project Financing dated July 1, 2016 ("Procurement Regulations"), and the provisions of the Recipient's procurement plan for the Project ("Procurement Plan") dated May 11, 2017 provided for under Section IV of the Procurement Regulations, as the same may be updated from time to time in agreement with the Administrator.

## Section IV. Withdrawal of Loan Proceeds

### A. General

**1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower (including the "World Bank Disbursement Guidelines for Projects" dated February 1, 2017, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.**

**2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan ("Category"), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.**

| Category | Amount of the Loan Allocated (expressed in USD) | Percentage of Expenditures to be financed (inclusive of Taxes) |
| --- | --- | --- |
| **(1) ISSF Investments for Part A(1) of the Project, goods, non-consulting services, consulting services and Training under Part B** | **47,000,000** | **98%** |
| **(2) Goods, non-consulting services, consulting services and Training under Part A(2) and Part C, Project Operating Costs, Incremental Fees** | **3,000,000** | **50%** |
| **(3) Front-end Fee** | | **Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions** |
| **TOTAL AMOUNT** | **50,000,000** | |

**B. Withdrawal Conditions; Withdrawal Period**

1. **Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made:**

   (a) **prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed $500,000 may be made for payments, previously agreed with the Bank, made prior to this date but on or after May 11, 2017 for Eligible Expenditures; and**

   (b) **under Category 1, unless the Chief Financial Officer has been hired by ISSF.**

2. **The Closing Date is November 30, 2023.**

**SCHEDULE 3**

**Amortization Schedule**

1. **The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date ("Installment Share"). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date[, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.]**

| Principal Payment Date | Installment Share (Expressed as a Percentage) |
|---|---|
| On each ________ [1][15]and ________[1][15] Beginning ________, 2___ through _________, 2____ | ____% |
| On _______, 2____ | ____% |

2. **If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:**

   (a) **To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.**

   (b) **Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date ("Original Installment Share") and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.**

3. (a) **Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.**

**(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.**

**[4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate. ]**

**[5.] If the Withdrawn Loan Balance is denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.**

## APPENDIX

### Section I. Definitions

1. **"Agreed Exit" means any exit from any ISSF Investment in accordance with the terms, conditions and methods set forth in the POM.**

2. "Anti-Corruption Guidelines" means the "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006 and revised in January 2011.

3. "Articles of Association" means the Articles of Association of ISSF establishing ISSF as a Jordanian Private Shareholding Company.

4. "Category" means a category set forth in the table in Section IV of Schedule 2 to this Agreement.

5. **"Consultant Guidelines" means the "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011 (revised July 2014).**

6. **"Deal Flow Creation Financing" means a payment made out of the proceeds of the Loan to an Eligible Professional Services Provider under Part B of the Project.**

7. **"Deal Flow Creation Financing Agreement" means an agreement between the ISSF and an Eligible Professional Services Provider pursuant to Schedule 2, Section I, Part F, paragraph 1(b) of this Agreement describing the rights, duties and responsibilities of each party, which shall comply with the provisions of this Agreement, the Project Agreement and the POM, and the format of which shall be set forth in the POM.**

8. **"Designated Account" means the designated account opened by JLGC for the purposes of the Project, into which amounts withdrawn from the Loan will be deposited, in accordance with the provisions of the General Conditions and the Disbursement Guidelines.**

9. **"Disbursement Guidelines" means the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions.**

10. **"Eligible Professional Services Provider" means a professional support provider, including, *inter alia*, accelerators, incubators, and business development support entities, which has met the eligible criteria set forth in the POM to be eligible for Deal Flow Creation Financing under Part B of the Project.**

11. "Environmental and Social Management Framework" or "ESMF" means the Environmental and Social Management Framework, dated ______________, 2017, issued by or on behalf of the Borrower and thereafter publicly disclosed, providing an analysis of potential impacts on the human and biophysical environment associated with the Project, an assessment of the risks and likelihood of potential adverse social and environmental impacts, and a checklist of plans and measures designed to prevent, manage or mitigate such potential adverse impacts.

**12. “Implementation Group” means the group established within JLGC assigned to work on implementation of the Project, comprising of civil servants including the Project Director, Project Coordinator, and other specialized staff, and consultants that may be specifically retained to work on Project implementation.**

**13. “Incremental Fees” means legal fees directly related and limited to the costs of establishing ISSF and preparation of any legal opinions as may be requested by the Bank during implementation of the Project, all based on budgets acceptable to the Bank, but excluding any fees arising from or related to disputes, arbitration, mediation, litigation or settlement.**

**14. “Innovative Startup Fund,” or “ISSF” means a holding company to be established for the Project by JLGC as a subsidiary of JLGC and the Central Bank of Jordan under the laws of the Borrower for the purpose of making ISSF Investments and holding the equity interests in such ISSF Investments, referred to in Section I.B.1(g) of Schedule 2 to this Agreement.**

**15. “Investment Committee” means the investment committee referred to in Section 1.A.3(c)(iii) of Schedule 2 to this Agreement, responsible for review and approval of ISSF Investments.**

**16. “Investment Support Financing” means a payment made out of the proceeds of the Loan to an ISSF Beneficiary under Part A(2) of the Project.**

**17. “Investment Support Financing Agreement” means an agreement between the ISSF and an ISSF Beneficiary pursuant to Schedule 2, Section I, Part E, paragraph 1(b) of this Agreement describing the rights, duties and responsibilities of each party, which shall comply with the provisions of this Agreement, the Project Agreement and the POM, and the format of which shall be set forth in the POM.**

**18. “ISSF Investment” means equity investment made by the ISSF in an ISSF Beneficiary pursuant to Section I(D) of Schedule 2 which has met the eligibility criteria set forth in the POM.**

**19. “ISSF Beneficiary” means any Financial Intermediary, an innovative SME, or a new startup which has met the eligible criteria set forth in Section I(D) of Schedule 2 and the POM to be eligible for an ISSF Sub-financing or Investment Support Financing under Part A of the Project.**

**20. “ISSF Manager” means a physical or legal person selected to manage the ISSF and referred to in Section I.A.2(c) of Schedule 2 to this Agreement.**

**21. “ISSF Management Fee” means a fee for the administration expenses incurred by the ISSF Manager in relation to the Project, as determined and defined in the detailed budget setting out an analysis of, and calculation for the ISSF Management Fee, acceptable to the World Bank, as such budget may be updated from time to time by agreement between the ISSF Manager, JLGC and the World Bank.**

**22. “ISSF Sub-financing” means a payment made out of the proceeds of the Loan to an ISSF Beneficiary in exchange for an ISSF Investment.**

**23. “ISSF Sub-financing Agreement” means an agreement between the ISSF and an ISSF Beneficiary pursuant to Schedule 2, Section I, Part B, paragraph 1(b)(iv) of this Agreement, describing the rights, duties and responsibilities of each party,**

**which shall comply with the provisions of this Agreement, the Project Agreement and the POM, and the format of which shall be set forth in the POM.**

**24.** **"General Conditions" means the "International Bank for Reconstruction and Development General Conditions for Loans", dated March 12, 2012, with the modifications set forth in Section II of this Appendix.**

**25.** **"JLGC" or "Project Implementing Entity" means the legal entity established pursuant to Jordan's Company's Law No. 22, 1994, under Registration No. 242, by the Borrower pursuant to the Project Implementing Entity's Legislation, or any legal successor thereto.**

**26.** **"JLGC's Legislation" means Articles of Association of JLGC executed under Jordan's Company's Law No. 22 of 1997**

**27.** **"Management Agreement" means the agreement referred to in Section 1.A.3(c) of Schedule 2 to this Agreement, to be entered into between ISSF and ISSF Manager, outlining management responsibilities for ISSF the purpose of Components 1 and 2 of the Project.**

**28.** **"Memorandum of Association" means the Memorandum of Association of ISSF establishing ISSF as a Jordanian Private Shareholding Company.**

**29.** **"Operating Costs" means the reasonable incremental expenses incurred on account of Project implementation by ISSF and JLGC, management and monitoring, including office supplies, the cost of publication of procurement notices, vehicle operation, office and equipment maintenance and repair, communication, translation and interpretation, travel and supervision costs, and other miscellaneous costs directly associated with Project, as determined by the Bank but excluding salaries of civil servants and employees of the Borrower or the Project Implementing Entity.**

**30.** **"Procurement Regulations" means the "Procurement Regulations for Borrowers under Investment Project Financing (IPF) dated July 1, 2016 of Goods, Non-consulting Services, and Consulting Services.**

**31.** **"Procurement Plan" means the Borrower's procurement plan for the Project, dated May 11, 2017 and referred to in Section IV of the Procurement Regulations, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.**

**32.** **"Project Operations Manual" or "POM" means the project operations manual, acceptable to the Bank setting forth procedures and requirements for carrying out the Project, and adopted by the Project Implementing Entity, as the same may be amended from time to time with the agreement of the Bank.**

**33.** **"Safeguard Instruments" means any one or more of the EMSF and any other safeguard instrument derived therefrom or adopted pursuant thereto.**

**34.** **"SME" means a small or medium-size enterprise.**

**35.** **"Startup" means any SME in the process of becoming operational or any existing SME that has yet to sell its product or service commercially, as set forth in the POM.**

**36.** **"Subsidiary Agreement" means the agreement referred to in Section I.B of Schedule 2 to this Agreement pursuant to which the Borrower shall make the proceeds of the Loan available to the JLGC.**

**37.** **"Training" means expenditures for the Project related to study tours, training courses, seminars, workshops and other training activities not included under goods or service providers' contracts, including costs of training materials, space and equipment rental, travel and *per diem* costs of trainees and trainers.**

**Section II. Modifications to the General Conditions**

**The General Conditions are hereby modified as follows:**

1. In the **Table of Contents**, the references to Sections, Section names and Section numbers are modified to reflect the modifications set forth in the paragraphs below.

**2.** **Section 3.01. (*Front-end Fee*) is modified to read as follows:**

**"Section 3.01. *Front-end Fee; Commitment Charge***

**(a) The Borrower shall pay the Bank a front-end fee on the Loan amount at the rate specified in the Loan Agreement (the "Front-end Fee").**

**(b) The Borrower shall pay the Bank a commitment charge on the Unwithdrawn Loan Balance at the rate specified in the Loan Agreement (the "Commitment Charge"). The Commitment Charge shall accrue from a date sixty days after the date of the Loan Agreement to the respective dates on which amounts are withdrawn by the Borrower from the Loan Account or cancelled. The Commitment Charge shall be payable semi-annually in arrears on each Payment Date."**

**3.** **In the Appendix, Definitions, all relevant references to Section numbers and paragraphs are modified, as necessary, to reflect the modification set forth in paragraph 2 above.**

**4.** **The Appendix is modified by inserting a new paragraph 19 with the following definition of "Commitment Charge", and renumbering the subsequent paragraphs accordingly:**

"19. "Commitment Charge" means the commitment charge specified in the Loan Agreement for the purpose of Section 3.01(b)."

**5.** **In the renumbered paragraph 49 (originally paragraph 48) of the Appendix, the definition of "Front-end Fee" is modified by replacing the reference to Section 3.01 with Section 3.01 (a).**

**6.** **In the renumbered paragraph 68 (originally paragraph 67) of the Appendix, the definition of the term "Loan Payment" is modified to read as follows:**

"68. "Loan Payment" means any amount payable by the Loan Parties to the Bank pursuant to the Legal Agreements or these General Conditions, including (but not limited to) any amount of the Withdrawn Loan Balance, interest, the Front-end Fee, the Commitment Charge, interest at the Default Interest Rate (if any), any prepayment premium, any transaction fee for a Conversion or early termination of a Conversion, the Variable Spread Fixing Charge (if any), any premium payable upon the establishment of an Interest Rate Cap or Interest Rate Collar, and any Unwinding Amount payable by the Borrower."

7. In the renumbered paragraph 73 (originally paragraph 72) of the Appendix, the definition of "Payment Date" is modified by deleting the word "is" and inserting the words "and Commitment Charge are" after the word "interest".

## Annex 9: Environmental and Social Aspects Screening Checklist

<table>
<tr><th colspan="2">Environmental & Social Aspects Screening Checklist</th><th></th></tr>
<tr><td colspan="2">Project name:</td><td>Location:</td></tr>
<tr><td colspan="3">Financing amount (US$) and financial purpose</td></tr>
<tr><td>Industry sector:</td><td colspan="2">Brief project description:</td></tr>
<tr><td colspan="2">Site visit date:</td><td rowspan="2">Additional technical review required:<br>☐ Yes<br>☐ No</td></tr>
<tr><td colspan="2">Reviewed by:</td></tr>
<tr><td colspan="3">Compliance with applicable requirements – check all that apply</td></tr>
<tr><td colspan="3">☐ Jordan Ministry of Environment Exclusion list applied<br>☐ National regulatory requirements<br>☐ Environmental, health and safety permits granted</td></tr>
<tr><td colspan="3">Management systems – check all that apply</td></tr>
<tr><td colspan="3">☐ No written environmental and social policy:<br>☐ No written human resources policy (e.g. employment rights/non-discrimination)<br>☐ No written fire/safety plan or emergency prevention/preparedness/response plan)<br>☐ No environmental, health and safety training for employees<br>☐ No procedures for managing environmental and social risks<br>☐ No designated person in charge of environmental and social issues<br>☐ No internal process for sharing information</td></tr>
<tr><td colspan="3">Project site —check all that apply:</td></tr>
<tr><td colspan="3">☐ Non-urban/undeveloped land<br>☐ Proximity to river/stream/pond/lake/sea<br>☐ Proximity to protected area (e.g. forest/endangered species)/ecologically sensitive area (e.g. wetland/breeding grounds)<br>☐ Proximity to culturally sensitive/indigenous area</td></tr>
<tr><td colspan="3">Environmental issues—check all that apply:</td></tr>
<tr><td>Air emissions<br>☐ Boilers<br>☐ Generators<br>☐ Vehicles and equipment</td><td colspan="2">Waste water<br>☐ Waste water discharged to: ______________<br>☐ Drains and grates</td></tr>
</table>

| | |
|---|---|
| ☐ Furnaces and incinerators<br>☐ Welding and soldering<br>☐ On-site burning<br>☐ Use of solvents<br>☐ Use of fumigation<br>☐ Evaporation of chemicals<br>☐ Refrigeration plant<br>☐ Use of exhaust ventilation | ☐ Oil separators<br>☐ Separation tanks or filters<br>☐ Reed beds<br>☐ Cut-off valves<br>☐ Foul sewers and septic tanks<br>☐ Water treatment units<br>☐ Cleaning operations<br>☐ Spraying operations<br>☐ De-watering/water pump out |
| *Solid and hazardous wastes*<br>☐ Waste generated:<br>☐ Types of waste:<br>______________________________<br>______________________________<br>______________________________<br>☐ Hazardous waste (e.g. waste oils, pesticide washings, solvents, clinical waste, asbestos)<br>☐ Waste disposed to: ____________________ | *Hazardous chemicals, fuels, pesticides*<br>☐ On-site chemicals or fuels storage<br>☐ Protective measures against leaks/spills<br>☐ Signs of leaks/spills<br>☐ On-site spill cleanup equipment<br>☐ Protective measures against rain<br>☐ Signs of corrosion on tanks/containers<br>☐ Secured storage areas against theft<br>☐ Training on proper handling of chemicals and fuels<br>☐ Pesticide use and management |
| *Resource consumption*<br>☐ Material used:<br>_____________________________________<br>_____________________________________<br>☐ Use of renewable natural resources<br>☐ Use of tools and equipment<br>☐ Water source:____________________<br>☐ Energy source:___________________ | *Nuisance*<br>☐ Dust<br>☐ Noise<br>☐ Odors<br>☐ Fumes<br>☐ Vibrations<br>☐ Traffic congestion and obstructions |

## Background

This Environmental & Social Management Plan (ESMP) details the policy, procedures and workflow that will be followed for investments made by _________________ (“the Company”) under the management and administration of ______________________(“the Follow Up and Monitoring Consultant (or other designated officer)”).

## Environmental & Social Management Plan

### General Principles

The Company continually endeavors to ensure effective Environmental & Social management practices in all its activities, products and services with a special focus on the following:

- Ensuring that all activities undertaken by the Company are consistent with the Applicable Requirements outlined later in this document
- Ensuring that all projects are reviewed against the Applicable Requirements
- Financing projects only when they are expected to be designed, built operated and maintained in a manner consistent with the Applicable Requirements
- Making best efforts to ensure that all projects are operated in compliance with the Applicable requirements on an ongoing basis, during the currency of the Company’s financing
- Ensuring transparency in its activities
- Ensuring that the management and the shareholders of the client companies understand the policy commitments made by the Company in this area.

This Policy will be communicated to all staff and operational employees of the Company.

Signed ___________________________ Effective Date ___________________________

## Annex 11: ESMP Outline

**Guidelines for a sub-project ESMP:** An ESIA is needed for EA category B projects in order to identify the potential impacts and appropriate mitigation measures to be included in the ESMP. Any sub-project ESMP would have the following format:

1. **Project Description.**
2. **Description of Adverse Impacts**: The anticipated impacts are identified and summarized.
3. **Description of Mitigation Measures**: Each measure is described with reference to the effects it is intended to deal with. As needed, detailed plans, designs, equipment description, and operating procedures are described.
4. **Mitigation Indicators and Description of Monitoring Program**: Monitoring provides information on the occurrence of impacts. It helps identify how well mitigation measures are working, and where better mitigation may be needed. The monitoring program should identify what information will be collected, how, where and how often. It should also indicate at what level of effect there will be a need for further mitigation. How environmental impacts are monitored is discussed below.
5. **Monitoring methods**: Methods for monitoring the implementation of mitigation measures or environmental impacts should be as simple as possible, consistent with collecting useful information, so that the sub project implementer can apply them. For instance, they could just be regular observations of the sub project activities or sites during construction and then when in use. Are plant/equipment being maintained and damages repaired, does a water source look muddier/cloudier different than it should, if so, why and where is the potential source of contamination. Most observations of inappropriate behavior or adverse impacts should lead to common sense solutions. In some case, e.g. transgenic crops, there may be need to require investigation by a technically qualified person.
6. **Responsibilities**: The people, groups, or organizations that will carry out the mitigation and monitoring activities are defined, as well as to whom they report and are responsible. There may be a need to train people to carry out these responsibilities, and to provide them with equipment and supplies.
7. **Implementation Schedule**: The timing, frequency and duration of mitigation measure and monitoring are specified in an implementation schedule, and linked to the overall sub project schedule.
8. **Capacity Development and Training**: If necessary, the ESMP can recommend specific, targeted training for project staff, contractor, and community groups to ensure the implementation of environmental safeguards recommendations.
9. **Cost Estimates and Source of Funds**: These are specified for the mitigation and monitoring activities as a sub project is implemented.
10. **Integration:** The ESMP must be integrated into the sub-project's and F4J's plan and design, budget, specifications, estimated costs, bid documents, and contract/agreements clauses. Contract documents should only be finalized when site-specific ESMP recommendations are adequately and appropriately incorporated into the plan and design, cost estimates, specifications, and contract clauses.

Annex 6 (cont). Sample of Adverse Impacts, Mitigation Measures, and Monitoring Indicators

| Activity | Sample ISSF Sub-Project Categories | Potential Environmental and Social Impacts | Mitigation Measures | Indicators |
|---|---|---|---|---|
| Rehabilitation of existing buildings / facilities | Agro-processing<br>Renewable Energy<br>Pharmaceuticals<br>IT based | Construction-related, localized dust, noise, and traffic impacts, debris management, worker health and safety | - Application of environmental requirements for contractors<br>- Implementation of simple mitigation measures as per screening results<br>- Preparation of a stand-alone ESMP as one of the environmental requirements | Testing and results within acceptable Jordanian Ambient dust and noise indicators |
| Preparation of packaged or processed fruits and/or vegetables for export market | Agro-processing logistics (e.g. distribution, storage, cold storage, labeling, packaging, tracking) | Worker packing and processing line injuries<br><br>Spoiled fruit or vegetable packaged, which, when consumed, could harm consumer health | - Application of Environmental Guidelines for contractors<br>- Performance Standard 2 on Labor and Working Conditions<br>- Implementation of simple mitigation measures as per screening results<br>- Preparation of a stand-alone ESMP | Occupational health and safety inspections; Jordanian labor law compliance; |
| Solar energy panel installations (as an example for renewable energy) | Alternative energy | Lifecycle impacts on GHGs<br><br>Heat or light reflection<br><br>Worker health and safety<br><br>Waste Disposal | - Avoid sites that have roof slopes that would require the panels to be placed in a manner which would reflect light into an immediate neighbor's window, balcony, or door for more than 30 days a year<br>- All safety measures for high-rise installation must be followed. If working on a roof directly sloping to the road, a safety net must be placed on the side facing the road to prevent debris from accidentally falling on the road and appropriate warning signs must be placed on the road<br>- All necessary protective gear must be worn at all times<br>- Dispose packaging and construction waste properly at approved waste management sites, using registered transport facilities. This waste should not be treated as domestic waste.<br>- Have a temporary storage facility that can contain the waste until disposed. Either into contract with a waste disposal facility capable of handling solar panel wastes.<br>- Application of Environmental Guidelines for contractors<br>- Performance Standard 2 on Labor and Working Conditions | - Pre-construction and construction phase site visit to review and detail site-specific environmental safety features<br>- Field inspection guidelines and checklist on worker health and safety<br>- Waste management checklist |
| IT-based (including | - IT based software | - Worker occupational, | - Sprinkling water to suppress dust emissions | - Testing and results within |

| Activity | Sample ISSF Sub-Project Categories | Potential Environmental and Social Impacts | Mitigation Measures | Indicators |
|---|---|---|---|---|
| software and applications) firms | programming, research, calling centers, and customer service centers<br>- Possible linear excavations for<br>- burying fiber-optic cable or, alternatively overhead stringing of the cable,<br>- Civil works associated with building of national terrestrial backbones and rollout of wireless networks. | health and safety issues<br>- Air pollution due to dust emission arising from site clearance and transportation of construction materials<br>- Noise nuisance during construction,<br>- Waste generation<br>- Safety issues for the families close to project active sites, etc. | - Use of protective gear such as nose masks, earmuffs, safety boots and gloves, proper disposal of construction debris and general solid waste<br>- Fencing off the construction sites and limiting access by non-construction personnel<br>- Linear excavations of active utility line right-of-ways for burying<br>- Fiber-optic cable or, alternatively, overhead stringing of the cable, and rollout of additional wireless networks existing utility lines.<br>- Application of Environmental Guidelines for contractors<br>- Performance Standard 2 on Labor and Working Conditions<br>- Preparation of a stand-alone ESMP | acceptable Jordanian Ambient dust and noise indicators<br>- Pre-construction and construction phase site visit to review and detail site environmental safety features<br>- Field inspection guidelines and checklist on worker health and safety<br>- Waste management checklist |

**(To be done only post-proof-of concept or post-design)**

| **Process** | ***Yes/No*** | |
|---|---|---|
| Have there been any updates to the ESMP or procedure? | | If yes, please provide a copy of the updated procedure and reasons for the same. |
| Has Senior management signed off on the changes? | | If yes, please provide a copy of the same. |
| Please provide details of the implementation budget and reasons for changes from the previous year if any. | | |
| Were any transactions rejected on account of the IFC exclusion list? | | If yes please provide details |
| Were there any difficulties and/or constraints related to the implementation of the environmental procedures? | | If yes please provide details |
| Were there any material environmental and social issues associated with borrowers during the reporting period in particular? | | If yes please provide details |
| **Supervision and monitoring** | ***Yes/No*** | |
| Do you supervise the performance of your projects? | | If yes, please describe how you do this and the extent of coverage of your portfolio. |
| Do you conduct client site visits? | | If yes, please describe the process including any environmental and social issues considered. |

| **Sustainable investments** | **Yes/No** | |
|---|---|---|
| Have you made any investments in projects that have environmental and social benefits such as investing in management systems, energy efficiency, renewable energy, cleaner production, pollution management, supply chain greening, corporate social responsibility, community | | If yes please provide details |

| | | |
|---|---|---|
| development etc? | | |

Annex 13: Annual Aggregate E&S Performance ISSF Reporting to JLGC

*Please provide responses to the questions below. Please include additional sheets or attachments as required to provide details on questions that have been answered Yes.*

| | | |
|---|---|---|
| **Name of Organization:** | | |
| **Completed by [name]:** | | |
| **Position in the Organization:** | | |
| **Reporting period:** | **From:** | **To:** |

PORTFOLIO INFORMATION

| **Report Covering Period** | |
|---|---|
| **From:** | **To:** |
| | |

For the reporting period, please provide the following information about your portfolio **where applicable**:

Fund Portfolio

| Company name | Description | Total exposure outstanding for most recent FY year end (in US$) | Average investment/transaction size (in US$) |
|---|---|---|---|
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