

STANDARD TWINNING PROJECT FICHE

1. Basic Information

- 1.1 **Programme:** Support to the Implementation of the Action Plan Programme IV - ENPI/2013/24-775 (EC)
- 1.2 **Twinning Number:** JO/13/ENPI/FI/01/17 (JO/27)
- 1.3 **Title:** Strengthening Central Bank of Jordan capacity for maintaining financial stability.
- 1.4 **Sector:** Finance.
- 1.5 **Beneficiary country:** The Hashemite Kingdom of Jordan

2. Objectives

2.1 Overall Objective:

To support Jordan in enhancing its standards for maintaining financial stability, by strengthening the capacities of Central Bank of Jordan through Financial Stability Department.

2.2 Project purpose:

To develop a comprehensive macro-prudential framework covering all aspects of financial stability in accordance with the European Union standards and best practices.

2.3 Contribution to National Development Plan /Cooperation agreement/ Association Agreement /Action Plan/ Partnership Priorities

Preserving macro-financial stability and developing financial policies is one of main principles in the development of national economy in Jordan, which is one of the main objectives of the Jordanian National development Plan "the national vision and strategy 2025". The objective is to lead to the support of growth engines and enhance competitiveness and investment attraction, where the Central Bank of Jordan plays a key role in achieving these principles by strengthening the ability to develop a financially resilient and

sophisticated banking system in accordance with international standards and practices.

Furthermore, the EU and Jordan cooperation activities identified in the Partnership Priorities document, agreed on in July 2016, shall guide the identification and implementation of mutually beneficial initiatives during the period 2016-2020 in view of political, security and economic developments.

The Partnership Priorities identify three areas where the EU and Jordan will further strengthen their relation: foreign and security policy, macro-economic stability and social and economic development, and governance, the rule of law, democratic reform and human rights.

Specifically, with regards to the second area of cooperation, this twinning is expected to contribute to strengthening the capacity of central bank of Jordan through financial stability department to develop a comprehensive financial stability framework in accordance with the European Union standards and practices.

3. Description

3.1 Background and justification:

The Financial Stability Department at the Central Bank of Jordan is a fairly newly established department, where it was established in 2013. The establishment of this department aims at enhancing the stability of the financial system through identifying and monitoring the risks it may face at the macro- level (systemic risks) to curb them and enhance the ability of the financial system to withstand them. Since one of the lessons learnt from the global financial crisis is that financial stability at the micro level of the banking system is insufficient to achieve financial stability at the macro level because of the so-called systemic risks that hit the whole financial system. This is the reason behind the importance of the macro-prudential policy that aims at mitigating the systemic risk and enhancing the resilience of the financial system to withstand shocks and address imbalances in

order not to negatively impact the financial intermediation process to help allocate savings to finance feasible investment opportunities

It should be noted that the CBJ prepared a crisis management manual, it also prepared studies on some macro-prudential tools (counter cyclical buffer, loan to value and debt to income). In addition to preparing model for macro-stress testing by using satellite model.

3.2 Linked activities (other international and national initiatives):

Several IMF and METAC assistances were provided. Despite these assistances, we believe there should be more focused activities and expertise tailored to CBJ needs that could be directed to the development of the department. The IMF assistance provided to the Financial Stability department were of two types:

1) METAC Assistance:

Since the establishment of the financial stability department in 2013, it has been receiving several METAC assistance in the form of short missions throughout the period of 2014- till August 2016.

Initially, the METAC assistance was regarding the development of an early warning system during 2014. Further missions, which took place during 2015 and 2016 and were concerned with Solvency and Liquidity stress testing and mainly enhancing the IMF Next-generation excel Model .

- A. Early Warning System (EWS): Assist CBJ staff in specifying a statistical EWS model that includes an autoregressive component using data available from the historical supervisory database; and in producing initial estimation of a statistical EWS model.
- B. Solvency stress testing: assistance was mainly given in developing CBJ staff capacity in using the IMF next generation excel model.
- C. Liquidity stress testing: the IMF expert introduced the IMF next generation excel model for liquidity.

2) Technical Assistance Program on the building of the Forecasting and Policy Analysis System (FPAS) and MESS Frameworks for Jordan:

As for direct IMF assistance we received several mission regarding Technical Assistance Program on developing a MESS Framework for Jordan. The financial stability department is responsible for the MESS framework and the research department is responsible for the FPAS framework.

3) The CBJ is currently doing the following activities:

1. Macro-prudential tools: the financial stability department doesn't have a formalized macro-prudential policy in place but the ratios and the indicators and tools which a typical macro-prudential policy should include are being monitored. The concept of the macro-prudential policy is covered throughout the financial stability report in addition to certain studies being conducted with regards D-SIBs, DBR and LTV.
2. A committee was formed to prepare a crisis management manual but further technical assistant is required in certain areas for developing and enhancing this manual.
3. Stress Testing: the financial stability department is implementing solvency stress testing which started in the banking supervision department and there are instructions in this regard 46/2009. In 2013, since financial stability department established it began implementing top-down stress testing for solvency with the assistance of the METAC. The stress testing entailed sensitivity and macro-stress testing with the use of excel model designed by IMF and named IMF next generation stress testing for solvency. New instructions were issued in December 2016 regarding bottom-up stress testing. In October 2016, work has begun on implementing liquidity stress testing, also with the use of IMF next generation model but for liquidity. Furthermore, an implied cash-flow approach was only implemented in this regard and assistance is needed for LCR and NSFR implementation. We would like to note that the CBJ has not issued any instructions regarding LCR and NSFR until now.

3.3 Mandatory Results (Components):

Component 1: Macro-prudential framework

Result 1.1: Development and implementation of a Macro-prudential framework.

Indicators:

1. Adopting and implementing a macro-prudential policy.
2. Identifying and assessing systemic risks at the macro level: excessive credit growth, financial sector exposure to bubbles asset, high exposure of over indebted household sector, high exposure to government debt, reliance on non-stable funding sources. In addition to developing macro-prudential tools to mitigate them.
3. Identifying a mechanism to activate macro prudential policy instruments and define the right tools and the right time to activate them to dampen the systemic risks.
4. Reviewing and developing the existing D-SIBs methodology and analyzing the contagion risks in the financial system.
5. Reviewing and Developing the existing Financial Stability Report Methodology.
6. Reviewing and developing the existing Early Warning System.

Result 1.2: Further professional development of CBJ staff is provided.

Indicators:

1. Specialized training for FSD staff in the area of the financial stability and macro-prudential field is ensured in accordance with the European Union standards.
2. Training of Trainers in financial stability and macro-prudential field.

Result 1.3: Assessment of the existing FSD database to ensure having a reliable and comprehensive database on the financial system.

Indicators:

1. Assessing the sufficiency of the existing database.
2. Proposing any amendments to the existing databases.

Component 2: Stress Testing

Result 2.1: Development and improvement of the existing Stress Testing methodologies.

Indicators:

1. Reviewing and developing the existing methodologies for the Solvency Stress Testing.
2. Reviewing and developing the existing methodologies for the Liquidity Stress Testing.
3. Developing methodologies of Reverse Stress Testing for Domestic Systemically Important Banks (D-SIBs).

Component 3: Crisis management

Result 3.1: Crisis Management Manual.

Indicators:

1. Reviewing and developing the existing crisis management manual.

Result 3.2: Further professional development of CBJ staff is provided.

Indicators:

1. Specialized training for FSD staff in the area of the crisis management is ensured in accordance with the European Union standards.

3.4 Activities:

Member State(s) is kindly requested to develop activities in the submitted proposal which are needed in order to achieve the results stipulated in the fiche.

Minimum two study visits to Member State(s) are envisioned to be incorporated within proposed activities, in order to support the implementation. This is in addition to at minimum two visibility events that shall be organised: launching event at the start of the

implementation and the final event at the end of the implementation of the project activities.

Means/ Input from the MS Partner Administration:

3.4.1 Profile and tasks of the Project Leader

This project requires a Project Leader who will be responsible for the overall coordination of the project activities. She/he should be capable of a high political dialogue. The project leader is expected to closely work with the Resident Twinning Advisor (RTA) as well as with the counterpart of the beneficiary institution(s).

Profile of the Project Leader :

- A long-term civil servant and high-ranking official in a Central Bank with experience in a leading position in financial stability matters.
- A high level university degree
- A minimum of 5 years of professional experience working in financial stability field.
- Excellent command in written and spoken English, with excellent organizational and communication skills.

- Proven contractual relation to a public administration or mandated body, as defined under the Twinning Manual 5.4.5.

Tasks of the Project Leader are:

- Coordinating and managing the overall implementation of the project in cooperation with the BC Project Leader;
- Ensuring sound implementation of the envisaged activities;
- Monitoring and evaluating the needs and priorities in the respective sector, project risks, progress against the project

- budget, benchmarks, and outputs, and taking any necessary remedial actions if needed;
- Coordinating MS experts' work;
- Providing efficient leadership of the project;
- Ensuring backstopping and financial management of the project in the MS.
- Participation in Steering Committee meetings;
- Project reporting.
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3.4.2 Profile and tasks of the RTA

Profile of the Resident Twinning Advisor:

- A high level university Degree preferably in finance / economics or equivalent qualifications and professional experience of 8 years in a Central bank of a Member State;
- At least 3 years of professional experience in the field of financial stability, preferably in the development and/or implementation of macro-prudential policy;
- Excellent knowledge of EU financial supervision legislation, policies and existing structures and procedures in the financial sector;
- Experience in project and/or team management;
- Excellent command of written and spoken English and computer literacy;
- Experience in the use of statistical programs;
- Proven contractual relation to a public administration or mandated body, as defined under Twinning Manual 5.4.5

Tasks of the Resident Twinning Advisor:

- Support and coordination of all activities in the BC;
- Day to day management of the project in the beneficiary institution;
- Coordination and facilitation of the Short Term experts missions and work;

- Coordination of the project implementation and proposing corrective actions, if required;
- Organization of visibility events (launching and final event);
- Organization and participation in Steering Committee meetings;
- Providing technical advice on EU best practices to the CBJ and to the Project during implementation;
- Liaise with Project Leader and assist in reporting.

The duration of the RTA secondment is 18 months.

3.4.3 Profile and tasks of the short-term experts

Requirements:

- University level education and equivalent professional experience of 5 years in financial stability, preferably in the development and/or implementation of macro-prudential policy;
- Working level of English language;
- Computer literacy;

Tasks of the Short-term experts:

- Close cooperation with the Jordanian experts in undertaking all activities;
- Advance preparation and familiarization with relevant documentation;
- Participating in relevant activities under the scope of the project in cooperation with other experts.
- Proven contractual relation to public administration or mandated body, as defined under Twinning Manual 5.4.5.

4. Institutional Framework

The Financial Stability Department at the Central Bank of Jordan is a fairly newly established department, which was established in 2013. The establishment of this department aims at enhancing the stability of the financial system through identifying and monitoring the risks it may face at the macro- level (systemic risks) to curb them and enhance the ability of the financial system to withstand shocks. In addition to the amended law to the Central Bank Law for the year 2016 recently released; included the expansion of the CBJ's objectives by stating explicitly that one of the objectives of CBJ is maintaining financial stability besides the primary goal of monetary stability, the amended law came to entrench legally the CBJ's role in contributing to the achievement of financial stability in Jordan as one of its primary goals. The financial stability department will work with other departments in CBJ, to enhance monetary and financial stability in Jordan. Therefore, further technical assistance is required to improve the quality and skills of the department's employees (10 staff). It will further develop the overall department framework and it will modernize and assist in the operationalization of macro-prudential policy tools.

5. Budget

The overall budget available for this twinning is (1.0) Million Euro.

6. Implementation Arrangements

6.1 The Programme Administration Office (PAO) is in charge of the coordination of all the activities and the administrative management of the Support to Implementation of the Action Plan Programme. The PAO will be the responsible institution for the management of this twinning project.

Contact details of PAO responsible of the contract:

Ministry of Planning and International Cooperation
Mr. Marwan Al-Refai

Programme Administration Office
Support to the implementation of the EU-Jordan Association
Agreement and Action Plan Programme
P.O. Box 555 Amman, 11118 Jordan
Fax: 00 962 6 4611669
Marwan.Al-Refai@mop.gov.jo

6.2 Main counterpart in the BC, including contact person and contact details. Also include RTA counterpart and the BC Project leader

Project Leader

MOHAMAD S. AMAIREH/ Executive Manager, Financial Stability
Department

RTA Counterpart

Rand Z. Al-hadidi/ Head of Division, Financial Stability Department

6.3 Contracts

It is envisaged that the project will be implemented through one twinning contract with the maximum amount of 1.0 M €.

7. Implementation Schedule (indicative)

7.1 Launching of the call for proposals: Q1 2017

7.2 Start of project activities: Q3 2017

7.3 Project completion: Q1 2019

7.4 Duration of the execution period (implementation period + 3 months): 21 months

8. Sustainability

The project will have a long-lasting beneficial impact on financial stability in Jordan. Jordanian financial system will be stable and sustainable, an objective which is of the utmost importance.

At the end of the project the Central Bank of Jordan will be in the position to master and to perform the necessary tasks independently with no assistance. The project will lead to improved financial legislation and better methods of macro-prudential oversight. The Project will provide appropriate development strategies and action plans to enable the Central Bank of Jordan to progress its supervision responsibilities more effectively.

The project is conditional on the continuing present excellent cooperation by the Central Bank of Jordan and the Ministry of Planning & International Cooperation of The Hashemite Kingdom of Jordan.

9. Crosscutting issues (equal opportunity, environment, etc...)

Equal Opportunity: The principles of equal opportunity and gender sensibility will be integrated into all stages of the project implementation. The respect of minority and human rights is guaranteed by the Constitution of the Hashemite Kingdom of Jordan.

Environment : The project does not foresee activities which could have adverse effect on the environment. It will take care of environmental safety in all planned activities.

10. Conditionality and sequencing

This project will be implemented through a twinning arrangement. Consequently, the CBJ will be required to allocate sufficient, suitable experienced staff and all necessary material resources for the efficient implementation of the Twinning Project.

The commitment and participation of Senior Management of the CBJ is indispensable, both qualities are intrinsically involved in developing and implementing the policies as well as facilitating any institutional changes

required in delivering the project results and ensuring the sustainability of project actions after the completion of the project activities.

ANNEXES TO PROJECT FICHE

Logical framework matrix in standard format