



Twining Fiche

Project title: Strengthening Central Bank of Jordan capacity for maintaining financial stability

Beneficiary administration: Central Bank of Jordan, The Hashemite Kingdom of Jordan

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EU funded project

TWINNING TOOL

List of Abbreviations

EU:	European Union
IMF:	International Monetary Fund
METAC:	Middle East Regional Technical Assistance Centre
EWS:	Early Warning System
LCR:	Liquidity Coverage Ratio
NSFR	Net Stable Funding Ratio
FPAS:	Forecasting and Policy Analysis System
MESS:	Macroeconomic Stress Scenario
D-SIB:	Domestic - Systemically Important Banks
PSC	Project Steering Committee
BC:	Beneficiary Country
FSD	Financial Stability Department

1. Basic Information

- 1.1 Programme: Support to the Implementation of Partnership Priorities, ENI/2017/040-561, indirect management, with ex-ante control

For British applicants: Please be aware that eligibility criteria must be complied with for the entire duration of the grant. If the United Kingdom withdraws from the EU during the grant period without concluding an agreement with the EU ensuring in particular that British applicants continue to be eligible, you will cease to receive EU funding (while continuing, where possible, to participate) or be required to leave the project on the basis of Article 12.2 of the General Conditions1 to the grant agreement.

- 1.2 Twinning Sector: Finance.

- 1.3 EU funded budget: EUR 1,500,000

2. Objectives

- 2.1 Overall Objective(s):

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 Specific objective:

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

- 2.3 Preserving macro-financial stability and developing financial policies is one of the pillars in the development of national economy, which is one of the main objectives of the Jordanian National development Plan "National Vision and Strategy 2025". The objective is to support growth, enhance competitiveness and attract investments. The Central Bank of Jordan plays a key role in achieving these objectives by strengthening the ability to develop a financially resilient and sophisticated banking system in accordance with international standards and practices.

The Partnership Priorities document, agreed by the EU and Jordan 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 and in particular its 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 was established in 2013. The department mandate is to identify and monitor the risks the country may face at the macro level (systemic risks), to curb them and enhance the ability of the financial system to withstand them. One of the lessons learnt from the global financial crisis is that financial stability at the micro level (e.g. within the banking system) may have implications for financial stability at the macro level. This is the reason why sound macro-prudential policies are crucial to mitigate systemic risks and enhance the resilience of the financial system to withstand shocks and address imbalances that may negatively impact the financial intermediation process and the allocation of savings to finance feasible investment opportunities.

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

3.2 Ongoing reforms:

The CBJ introduced a number of actions to enhance financial stability:

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 to D-SIBs, DBR and LTV.
2. A committee was formed to prepare a crisis management manual but further technical assistance 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. In 2013, since the Financial Stability Department was established, CBJ began implementing top-down stress testing for solvency with the assistance of the METAC¹. The stress testing entailed sensitivity and macro-stress testing with the use of an 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 began on implementing liquidity stress testing, also with the use of an 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. Also, in 2017 and 2018 further assistance was provided regarding liquidity, liquidity-solvency link, contagion and interconnectedness. Furthermore the CBJ is currently in the process of issuing instructions regarding LCR.

3.3 Linked activities:

In the past IMF and METAC has provided technical assistance to the CBJ (as outlined below). Despite this, there is need for more focused activities and expertise tailored to CBJ requirements that could be directed to the development of the department.

- 1) METAC Assistance:

¹ <https://www.imfmetac.org/content/metac/en1.html>

Since the establishment of the Financial Stability Department in 2013, CBJ has been receiving several METAC assistance in the form of short missions throughout the period of 2014- till August 2018.

Initially, the METAC assistance was focused on the development of an early warning system during 2014. Further missions, which took place between 2015 and 2018 were concerned with Solvency and Liquidity stress testing and with enhancing CBJ capacity to use the IMF Next-generation excel Model .More precisely the METAC team carried out the following tasks:

- A. Early Warning System (EWS): METAC assisted CBJ staff in specifying a statistical EWS model that included 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 CBJ received several technical assistance missions that helped with 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.

3.4 List of applicable *Union acquis*/standards/norms:

The Twinning project responds to the following domestic legislations that can be retrieved online:

- 1) CBJ Solvency Stress Testing Instructions no. (1) for year 2016.
- 2) CBJ D-SIBs instructions (2) for year 2016.
- 3) Banking law no. 28 for year 2000, and amendments.
- 4) CBJ Law No. 23 for year 1971 and amendments.
- 5) Liquidity instructions:
 - a. Instructions on Legal Liquidity no.(37) for year 2007 issued by the CBJ pursuant to the provisions of Article (45/A) of CBJ Law and Articles (42/A/1), (42/B) and (99/B) of Banking Law.
 - b. Liquidity Based on the Maturity Ladder Instructions no.(41) for year 2008

3.5 Results and activities

3.5.1 Components and results per component

The project consists of 3 components with 6 results in total:

Component 1: Macro-prudential framework

- Result 1: A macro-prudential framework is developed and implemented;
- Result 2: Further professional development and capacity building for CBJ staff is provided in relevant fields for the project;
- Result 3: Assessment of the existing FSD database to ensure having a reliable and comprehensive database on the financial system is provided;

Component 2: Stress Testing

- Result 4: The existing Stress Testing methodologies are developed and improved ;

Component 3: Crisis management

- Result 5: Crisis Management Manual is reviewed and implemented on a pilot basis for future adoption.
- Result 6: Further capacity building for CBJ staff in the field of crises management is provided.

3.6 Means/input from the EU Member State Partner Administration(s):

3.6.1 Profile and tasks of the PL:

Task:

A high-ranking Member State official or assimilated agent who directs the implementation of the EU Twinning project and formally sign all work plan(s) and or/ any updates of these.

- Overall coordination and managing of the 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
- Coordination of MS experts' work and availability
- Providing efficient leadership of the project
- Ensuring backstopping and financial management of the project in the MS
- Participation in Steering Committee meetings
- Project reporting

Education:

Master degree in the areas finance or economics or equivalent professional experience in the field of minimum 8 years.

General Experience:

- Civil servant and high-ranking official in a Central Bank with experience in a leading position in financial stability matters.

Specific Experience:

- Solid experience in project management, including work plan development and controlling.
- A minimum of 3 years of professional experience working in financial stability field.
- Proven experience in project management will be an asset

Language skills:

- Working level of English.

3.6.2 Profile and tasks of the RTA:**Task:**

Resident Twinning Adviser being an official or assimilated agent from a Member State public or semi-public administration or accepted mandated body seconded to the beneficiary country to coordinate the day-to-day activities of the project.

- Support and coordination of all activities in the BC
- Day to day management of the project in the beneficiary institution
- Coordination and assistance to the short-term experts
- Coordination of the project implementation and proposing corrective actions, if required
- Organization of visibility events (kick-off and final event)
- Organization Steering Committee meetings
- Participation in Steering Committee meetings
- Executing administrative issues (e.g. assisting in reporting)
- Providing technical advice on EU policies and best practices, and assisting Jordanian administration in the context of project work plan
- Networking with institutions relevant to this project in Jordan and in MS

Education:

- Master degree in finance / economics or equivalent professional experience of 8 years;

General Experience:

- At least 3 years of professional experience in a Central bank of an EU Member State
- Experience in critical analysis and report writing.

Specific Experience:

- 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;
- Experience in the use of statistical programs;

Language skills:

- Excellent level of English.

3.6.3 Profile and tasks of Component Leaders:**Leader of Component 1: Macro-prudential Expert****Task:**

- Reviewing and assessing existing macro-prudential tools.
- Developing an appropriate framework.

Education:

- University degree in finance / economics or equivalent qualifications or equivalent professional experience of 8 years.

General Experience:

- At least 3 years of experience in financial stability.
- Strong statistical and analytical abilities.
- Target oriented team player.
- Experience in critical analysis and report writing.

Specific Experience:

- Proven work experience (at least 3 years) in macro-prudential policy tools.
- Solid experience in reforming and upgrading macro-prudential tools.
- Teaching experience would be an advantage.
- Working experience in an Arabic country would be an asset.

Language skills:

- Excellent level of English is a must.

Leader of Component 2: Stress Testing Expert

Task:

Expert responsible for designing and assessing stress testing.

Education:

- University degree in finance / economics or equivalent qualifications or professional equivalent experience of 8 years.

General Experience:

- At least 3 years of experience in financial stability.
- Strong statistic modelling technique.
- Target oriented team player.
- Experience in critical analysis and report writing.

Specific Experience:

- Proven work experience (at least 3 years) in the area of stress testing.
- Solid understanding of mechanisms used for stress testing.
- Solid experience in stress testing models.

Language skills:

- Excellent level of English is a must.

Leader of Component 3: Crisis management Expert

Task:

Expert responsible for the specific output in the areas of crisis management, such as:

- Reviewing the existing crisis management manual.
- Developing a quarterly analysis report.

Education:

- Master degree in finance / economics or equivalent qualifications.

General Experience:

- Solid understanding in financial stability.
- At least 3 years of experience in implementing crisis management manual.
- Strong statistic modelling technique.
- Target oriented team player.
- Very solid organisational skills.
- Proven experience in keeping timelines and budgets.

Specific Experience:

- Proven work experience (at least 3 years) in crisis management.
- Experience in collaboration with high level experts.
- Expertise in purchasing project related services is a must.

Language skills:

- Excellent level of English is a must.

3.6.4 Profile and tasks of other short-term experts:

In close cooperation with the component leaders and on request of the RTA the short-term experts will support relevant activities under the scope of the project (financial stability) in cooperation with other experts. In addition, the experts are expected to maintain close cooperation with the Jordanian experts in undertaking all activities, to advance preparation and get familiarized with relevant documentation.

More specifically:

Requirements:

- University level education or equivalent professional experience of 3 years in public administration
- 3 years in financial stability, preferably in the development and/or implementation of macro-prudential policy
- Working level of English language
- Computer literacy
- Proven contractual relation to public administration or mandated body, as defined under Twinning Manual 5.4.5

4. Budget

Maximum Budget available for the Grant is EUR (1.5) million

5. Implementation Arrangements

5.1 Implementing Agency responsible for tendering, contracting and accounting (AO/CFCE/PAO/European Union Delegation/Office):

The Ministry of Planning and International Cooperation is the Contracting Authority for the twinning project under which The Programme Administration Office (PAO) is in charge of the coordination of all the related activities and the administrative management of the funding 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 Partnership Priorities Programme

P.O. Box 555 Amman, 11118 Jordan

Fax: 00 962 6 4611669

Marwan.Al-Refai@mop.gov.jo

5.2 Institutional framework

The Financial Stability Department at the Central Bank of Jordan was established in 2013. The department was set up to identify and monitor the risks that the financial system may face at the macro- level (systemic risks) in order to curb them and enhance the ability of the financial system to withstand shocks. The 2016 amended law to the Central Bank Law included the expansion of the CBJ's objectives by stating explicitly that one of the primary objectives of CBJ is maintaining financial stability besides the primary goal of monetary stability.

The financial stability department works with other departments in CBJ, to enhance monetary and financial stability in Jordan. However, technical assistance is required to improve the capacity and skills of the department's employees (14 staff) and assist in developing the overall department framework as well in the modernization and operationalization of macro-prudential policy tools.

5.3 Counterparts in the Beneficiary administration:

5.3.1 Contact person:

Mr. Mohamad S. Amaireh

Executive Manager, Financial Stability Department

Central Bank of Jordan

Email: Mohamad.Amaireh@cbj.gov.jo

5.3.2 PL counterpart

Mr. Mohamad S. Amaireh

Executive Manager, Financial Stability Department

Central Bank of Jordan

Email: Mohamad.Amaireh@cbj.gov.jo

5.3.3 RTA counterpart

Ms. Rand Z. Al-Hadidi

Head of Division, Financial Stability Department,

P.O. Box: 926031 Amman 11110-Jordan

Email: rand.alhadidi@cbj.gov.jo

6. **Duration of the project**

18 months of implementation period.

7. **Management and reporting**

7.1 **Language**

The official language of the project is the one used as contract language under the instrument (English). All formal communications regarding the project, including interim and final reports, shall be produced in the language of the contract.

7.2 Project Steering Committee

A project steering committee (PSC) shall oversee the implementation of the project. The main duties of the PSC include verification of the progress and achievements *via-à-vis* the mandatory results/outputs chain (from mandatory results/outputs per component to impact), ensuring good coordination among the actors, finalising the interim reports and discuss the updated work plan. Other details concerning the establishment and functioning of the PSC are described in the Twinning Manual.

7.3 Reporting

All reports shall have a narrative section and a financial section. They shall include as a minimum the information detailed in section 5.5.2 (interim reports) and 5.5.3 (final report) of the Twinning Manual. Reports need to go beyond activities and inputs. Two types of reports are foreseen in the framework of Twinning: interim quarterly reports and final report. An interim quarterly report shall be presented for discussion at each meeting of the PSC. The narrative part shall primarily take stock of the progress and achievements *via-à-vis* the mandatory results and provide precise recommendations and corrective measures to be decided by in order to ensure the further progress.

8. Sustainability

The achievements of the Twinning project (from results per component to impacts) should be maintained as a permanent asset to the Beneficiary administration even after the end of the implementation. This presupposes *inter alia* that effective mechanisms are put in place by the CBJ administration to disseminate and consolidate the results of the project.

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.

9. Crosscutting issues

This project will insure equal treatment and opportunity to all persons of interest regardless of their gender, age, race, colour, disability, religious view, ethnicity, marital status, social classes and sexual orientation, in which are guaranteed by the constitution of the Hashemite Kingdome of Jordan. Also the project does not foresee activities that could have adverse effect or impact on the environment.

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.

11. Indicators for performance measurement

Kindly refer to the Logical Framework Matrix, Annex 1

12. Facilities available

The beneficiary will host the EU twinning project team and will provide the following facilities for RTA, component leaders, and office manager:

- Office space (10 m2 /staff), including functional desk and shelves
- Additional office space for the pool of STEs
- Land lines for national telephone
- wLan with internet connection for all project team office environment
- Access to training rooms in the beneficiary's premises, including audio-/video-equipment
- Access to meeting rooms in the beneficiary's premises

ANNEX TO PROJECT FICHE

1. The Simplified Logical framework matrix

Overall objective	Objectively verifiable indicators	Sources of Verification	Risks	
To support Jordan in enhancing its standards for maintaining financial stability, by strengthening the capacities of Central Bank of Jordan through Financial Stability Department.	Positive EC opinion on the progress made in the financial stability area.	EC Regular Report on progress by Jordan in implementation of the macro-prudential policy.		
Specific objectives / Project purpose	Objectively verifiable indicators	Sources of Verification	Risks	Assumptions
To develop a comprehensive macro-prudential framework covering all aspects of financial stability in accordance with the European Union standards and best practices.	A macro-prudential framework in place.	<ul style="list-style-type: none"> • CBJ internal reports. • Project Progress Reports • Twinning project review mission report. • Study visits for each components 	<ul style="list-style-type: none"> • Slow Decision making on required policy reforms • Lack of Financial and Human Resources to implement needed changes 	<ul style="list-style-type: none"> • Government of Jordan continues to support reforms in the financial system and economic system as a whole. • Sufficient Human Resources Provided.

Results	Objectively verifiable indicators	Sources of Verification	Risks	Assumptions
<u>Result 1: A macro-prudential framework is developed and implemented;</u>	<ol style="list-style-type: none"> 1) Adoption and implementation of macro-prudential policy; 2) Identification and assessment of systemic risks at macro-level as well as tools to mitigate them 3) Mechanism for activating macro-prudential policy instruments is adopted; 4) D-SIB methodology for avoiding contagion risk in the financial system is developed; 5) Updated Financial Stability Report Methodology); 6) Early Warning Model is proposed; 	<ul style="list-style-type: none"> • CBJ internal reports. • Projects Quarterly Reports. • Annual Reports Relevant International organizations Assessment Reports (i.e.IMF.) 	<ul style="list-style-type: none"> • Slow Decision making on Required Policy Reforms. • Ineffective Communication between CBJ and Project Team. 	Effective communication and active participation of all stakeholders throughout the duration of the project.
<u>Result 2: Further professional development and capacity building for CBJ staff is provided in relevant fields for the project;</u>	<ol style="list-style-type: none"> 1) Training Needs Assessment methodology introduced and yearly implemented 	<ul style="list-style-type: none"> • Training Plan • Training Material and Documents • Training Assessment Reports 	<ul style="list-style-type: none"> • Ineffective communication from CBJ with Project Team • No allocation of needed Financial Resources to tender required technologies and execute training. • Employees not adhering to newly developed procedures 	

Results	Objectively verifiable indicators	Sources of Verification	Risks	Assumptions
<u>Result 3 Assessment of the existing FSD database to ensure having a reliable and comprehensive database on the financial system is provided</u>	1) Database requirements introduced	<ul style="list-style-type: none"> • Assessment Report 	<ul style="list-style-type: none"> • Lack of human resources and skills to assess existing database 	
<u>Result 4: The existing Stress Testing methodologies are developed and improved of the existing Stress Testing methodologies</u>	<ol style="list-style-type: none"> 1) Solvency stress Testing methodologies are validated and improved. 2) Liquidity Stress Testing methodologies are proposed. 3) Reverse Stress Testing for Domestic Systemically Important Banks (D-SIBs) are developed. 	<ul style="list-style-type: none"> • Revised Instructions • Revised Methodology 	<ul style="list-style-type: none"> • Lack of Financial Resources to buy and implement the needed system. • Lack of Financial and Human Resources to implement needed changes. • Ineffective Communication from CBJ with project team 	
<u>Result 5: Crisis Management Manual</u>	<ol style="list-style-type: none"> 1) The existing crisis management manual is reviewed and implemented on a pilot. 2) Periodic analysis reports are proposed. 3) Early Warning Model is proposed; 	<ul style="list-style-type: none"> • Revised crisis management manual 	<ul style="list-style-type: none"> • Lack of Financial and Human Resources to implement changes 	
<u>Result 6: Further capacity building for CBJ staff in the field of crises management is provided</u>	1) Training needs assessment methodology is introduced and yearly implemented	<ul style="list-style-type: none"> • Training Plan • Training Material and documents • Assessment Reports 	<ul style="list-style-type: none"> • Ineffective communication from CBJ with Project Team • No allocation of 	

Results	Objectively verifiable indicators	Sources of Verification	Risks	Assumptions
			needed Financial Resources to tender required technologies and execute training. <ul style="list-style-type: none"> • Employees not adhering to newly developed procedures 	