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Report No.: PP2409

PROJECT PAPER

ON A

PROPOSED GRANT

IN THE AMOUNT OF (US\$1.05M)

FROM THE MIDDLE EAST AND NORTH AFRICA TRANSITION FUND

TO THE

HASHEMITE KINGDOM OF JORDAN

FOR A

PROMOTING FINANCIAL INCLUSION POLICIES IN JORDAN PROJECT

March 22, 2018

FINANCE AND MARKETS GLOBAL PRACTICE  
MIDDLE EAST & NORTH AFRICA

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## HASHEMITE KINGDOM OF JORDAN

### CURRENCY EQUIVALENTS (As of October 20, 2017)

Currency Unit	=	Jordanian Dinar (JOD)
JOD0.709	=	US\$1
US\$1.409	=	JOD1

### ABBREVIATIONS AND ACRONYMS

AFI	Alliance for Financial Inclusion
AMF	Arab Monetary Fund
AML	Anti-Money Laundering
API	Application Program Interfaces
CBJ	Central Bank of Jordan
CFT	Combating the Financing of Terrorism
CPS	Country Partnership Strategy
DFS	Digital Financial Services
EBRD	European Bank for Reconstruction and Development
EU	European Union
FCA	Financial Conduct Authority
FISC	Financial Inclusion Steering Committee
FITC	Financial Inclusion Technical Committee
FM	Financial Management
GDP	Gross Domestic Product
GIZ	Gesellschaft für Internationale Zusammenarbeit
GPF	Global Policy Forum
IBRD	International Bank for Reconstruction and Development
IFC	International Finance Corporation
IMF	International Monetary Fund
KYC	Know your Customer
M&E	Monitoring and Evaluation
MAS	Monetary Authority of Singapore
MENA	Middle East and North Africa
MFI	Microfinance Institutions
MSME	Micro, Small and Medium Enterprise
NBER	National Bureau of Economic Research
NFIS	National Financial Inclusion Strategy
PDO	Project Development Objective
SME	Small and Medium Enterprises
SSB	Standard Setting Bodies
UFA	Universal Financial Access
ToR	Terms of Reference
WBG	World Bank Group
WAs	Withdrawal Applications

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**HASHEMITE KINGDOM OF JORDAN**  
**Promoting Financial Inclusion Policies in Jordan Project**

**TABLE OF CONTENTS**

	<b>Page</b>
<b>I. STRATEGIC CONTEXT.....</b>	<b>1</b>
A. Country Context.....	1
B. Sectoral and Institutional Context.....	1
C. Alignment with Transition Fund Objective .....	5
D. Higher Level Objectives to which the Project Contributes.....	5
<b>II PROJECT DEVELOPMENT OBJECTIVES .....</b>	<b>6</b>
A. PDO.....	6
B. Project Beneficiaries .....	6
C. PDO Level Results Indicators .....	7
<b>III.PROJECT DESCRIPTION .....</b>	<b>7</b>
A. Project Components .....	7
B. Project Cost and Financing.....	12
C. Analytical Underpinnings and Lessons Learned and Reflected in the Project Design.....	12
D. Links with Other World Bank Group Activities.....	13
E. Collaboration with Development Partners.....	14
F. Stakeholders' Consultation.....	15
<b>IV.IMPLEMENTATION.....</b>	<b>15</b>
A. Institutional and Implementation Arrangements.....	15
B. Results Monitoring and Evaluation.....	16
C. Sustainability.....	16
<b>V.KEY RISKS AND MITIGATION MEASURES .....</b>	<b>17</b>
A. Risk Rating Summary.....	17
B. Overall Risk Rating Explanation.....	17
<b>VI.APPRAISAL SUMMARY .....</b>	<b>18</b>
A. Economic and Financial Analysis.....	18
B. Technical Analysis.....	19
C. Financial Management.....	20
D. Procurement.....	20
E. Social and Environmental Safeguards.....	21
F. World Bank Grievance Redress.....	22
 <b>ANNEXES</b>	
Annex 1: Results Framework and Monitoring.....	23
Annex 2: Detailed Project Description .....	24
Annex 3: Implementation Arrangements.....	32
Annex 4: Fintech and Regtech.....	38
Annex 5: Implementation Support Plan.....	44

# APPRAISAL DATA SHEET

Jordan

Promoting Financial Inclusion Policies in Jordan Project (P163719)

## PROJECT PAPER

MIDDLE EAST AND NORTH AFRICA

Report No.: PP2409

Basic Information			
Project ID P163719	EA Category C - Not Required	Team Leader(s) Ghada Ahmed Waheed Ismail	
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints [ ] - Fragile States - Post-Conflict		
	Financial Intermediaries [X]		
	Series of Projects [ ]		
Project Implementation Start Date 22-March -2018	Project Implementation End Date 31-Dec-2020		
Expected Effectiveness Date 15-April -2018	Expected Closing Date 31-Dec-2020		
Joint IFC Yes	Joint Level Complementary or Interdependent project requiring active coordination		
Practice Manager/Manager Nabila Assaf	Senior Global Practice Director Ceyla Pazarbasioglu-Dutz	Country Director Saroj Kumar Jha	Regional Vice President Hafez M. H. Ghanem
Approval Authority			
Approval Authority RVP Decision			
Borrower: Ministry of Planning and International Cooperation			
Responsible Agency: The Central Bank of Jordan			
Contact: Dr. Maher Sheikh Hasan Telephone No.: 0096264630301		Title: Deputy Governor Email: Maher.Hasan@cbj.gov.jo	
Project Financing Data (in USD Million)			
Total Project Cost:	1.05	Total Bank	1.05

					Financing:	
Financing Gap:		0.00				
<b>Financing Source</b>					<b>Amount</b>	
The MENA Transition Fund					1.05	
Total					1.05	
<b>Expected Disbursements (in USD Million)</b>						
Fiscal Year	2018	2019	2020	2021		
Annual	0.21	0.42	0.3	0.12		
Cumulative	0.21	0.63	0.93	1.05		
<b>Institutional Data</b>						
<b>Practice Area (Lead)</b>						
Finance & Markets						
<b>Contributing Practice Areas</b>						
<b>Proposed Development Objective(s)</b>						
The proposed objective of the project is to promote financial inclusion and digital financial services by supporting the implementation of Jordan's National Financial Inclusion Strategy.						
<b>Components</b>						
<b>Component Name</b>					<b>Cost (USD Millions)</b>	
Operationalizing the Financial Inclusion Implementation Unit at CBJ.					0.275	
Developing a country-specific program of peer-learning and knowledge sharing.					0.225	
Establishing regulatory sandbox to facilitate the development and adoption of innovative financial technology.					0.550	
<b>Compliance</b>						
<b>Policy</b>						
Does the project depart from the CAS in content or in other significant respects?					Yes [ ]	No [x]
Does the project require any waivers of Bank policies?					Yes [ ]	No [x]
Have these been approved by Bank management?					Yes [ ]	No [ ]
Does the project meet the Regional criteria for readiness for implementation?					Yes [x]	No [ ]
<b>Safeguard Policies Triggered by the Project</b>					<b>Yes</b>	<b>No</b>
Environmental Assessment OP/BP 4.01						<b>X</b>
Natural Habitats OP/BP 4.04						<b>X</b>

Forests OP/BP 4.36		<b>X</b>
Pest Management OP 4.09		<b>X</b>
Physical Cultural Resources OP/BP 4.11		<b>X</b>
Indigenous Peoples OP/BP 4.10		<b>X</b>
Involuntary Resettlement OP/BP 4.12		<b>X</b>
Safety of Dams OP/BP 4.37		<b>X</b>
Projects on International Waterways OP/BP 7.50		<b>X</b>
Projects in Disputed Areas OP/BP 7.60		<b>X</b>

### Legal Covenants

Name	Recurrent	Due Date	Frequency

### Description of Covenant

### Conditions

Source of Fund	Name	Type

### Description of Condition

## Team Composition

### Bank Staff

Name	Role	Title	Specialization	Unit
Ghada Ahmed Waheed Ismail	Team Leader (ADM Responsible)	Financial Sector Specialist		GFCMW
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**Extended Team**

<b>Name</b>	<b>Title</b>	<b>Office Phone</b>	<b>Location</b>

**Locations**

<b>Country</b>	<b>First Administrative Division</b>	<b>Location</b>	<b>Planned</b>	<b>Actual</b>	<b>Comments</b>

## **I. STRATEGIC CONTEXT**

### **A. Country Context**

1. Economic growth in Jordan has been slow. The Gross Domestic Product (GDP) growth slowed to an average of 2.6 percent between 2010 and 2013, following a strong performance of 6.5 percent between 2000 and 2009. Real GDP growth was 2.4 percent in 2015, and GDP in 2016 is expected to further decelerate<sup>1</sup>.

2. There exist around 1.3 million Syrians<sup>2</sup> in Jordan, the majority of which are registered and non-registered refugees, and the population influx generates and exacerbates a range of development challenges including a worsening labor market. Unemployment estimates increased from 11.9 percent in 2014 to 15.1 percent in the first three quarters of 2016<sup>3</sup>. Roughly 35.5 percent of youth and 23.9 percent of women are unemployed, and may be affected by worsening labor markets<sup>4</sup>. The refugee crisis also contributes to a strain on public finances, and public debt to GDP increased from 89 percent in 2014 to 93 percent in 2016.

3. The economic situation in Jordan calls for innovative approaches to stimulate economic growth and job creation. In that respect, an inclusive financial system can play a critical role in job creation, poverty reduction and overall sustainable economic growth. Moreover, a recent Working Paper<sup>5</sup> for the International Monetary Fund (IMF) and National Bureau of Economic Research (NBER) provides evidence on direct linkages between financial inclusion and GDP growth. At the microeconomic level, individuals and MSMEs who have access to and use formal financial services are able to start and expand businesses (hence creating jobs in addition to self-employment), invest in education, manage risks, and absorb financial shocks.

### **B. Sectoral and Institutional Context**

4. Financial inclusion data suggest that there is a great potential to deepen financial inclusion in Jordan:

- One-fourth of Jordanian adults report owning an account at a regulated financial institution, and Jordan is lagging behind its country peers. According to Findex 2014, only 24.6 percent of Jordanian adults (15 years and above) report owning a formal account at a regulated institution, i.e. 13 percentage points below countries with similar GDP per capita. Contrary to most countries in the developing world, account ownership in Jordan has stagnated since 2011. In addition, usage of financial products is low – only 16 percent of Jordanian adults used their bank account to save and only 14 percent of adults reported that they borrowed from a financial institution.

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<sup>1</sup> CBJ Recent Monetary and Economic Developments in Jordan, Annual report 2016.

<sup>2</sup> Jordan hosts an estimated 1.3 million Syrians, of which roughly half are refugees registered by the United Nations Refugee Agency (UNHCR).

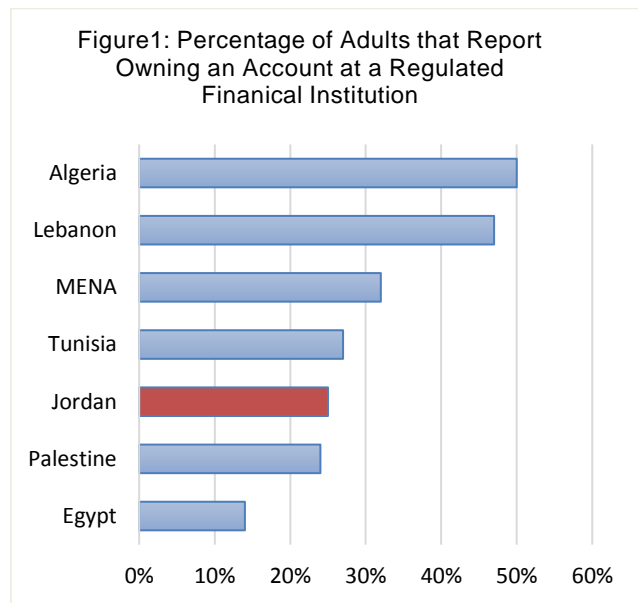
<sup>3</sup> The World Bank, Jordan Economic Monitor, Fall 2016

<sup>4</sup> Average for the first three quarters of 2016. Jordan Department of Statistics.

<sup>5</sup> IMF Working Paper WP/15/22, “Identifying Constraints to Financial Inclusion and Their Impact on GDP and Inequality: A Structural Framework for Policy”, Era Dabla-Norris, Yan Ji, Robert Townsend, and D. Filiz Unsal. January 2015, <http://www.imf.org/external/pubs/ft/wp/2015/wp1522.pdf>.



- Gender disparities are also prevalent, with women facing higher levels of financial exclusion than men. In 2014, 15 percent of women had a bank account versus 33 percent of men.
- Young start-up firms face challenges in accessing financing. A recent market assessment conducted by the European Bank for Reconstruction and Development (EBRD)<sup>6</sup> showed that 83 percent of Start-ups depended on their “own funds” as the main source of financing, while 17 percent relied on other sources such as loans from banks, clients, friends and family, suppliers and micro finance institutions (MFIs). To mitigate the



Source: The Global Findex DataBase (2014).

risk associated with lending to start-ups, banks rely primarily on collateral (real estate mostly) rather than creditworthiness. Most loans require collateral, equal to about 23 percent of the loan value. Most start-ups do not have sufficient collateral, and when they do, they are not registered, making foreclosure difficult if not impossible.

- Other key constraints weigh on the deepening of financial inclusion. These include: informality (which translates into an excessive information asymmetry, as highlighted above); limited product offerings (lack of tailored savings, insurance, credit –including sharia compliant-, and payments products); absence of risk-based Know your Customer (KYC) regulation (identification and eligibility requirements for basic accounts proportionate to risks allow for greater inclusion); lack of modern Government payments systems; weak consumer protection framework; and lack of systematic, comprehensive market analysis.

## 5. Reponses of the authorities so far:

- The Central Bank of Jordan (CBJ) has taken the lead in developing a National Financial Inclusion Strategy (NFIS). In 2016, the CBJ established a coordination structure to actively implement the NFIS, and monitor and evaluate progress. A Financial Inclusion Steering Committee (FISC) was established in 2016, tasked with approving and endorsing high level national financial inclusion goals and agendas. FISC members include the Governor and Deputy Governor of the CBJ, the General Manager of Jordan Loan Guarantee Corporation, the Chairman of Bankers Association, the Chairman of Tanmeyah (Microfinance network), and the Secretary Generals of the Ministries of Planning and International Cooperation (MoPIC), Finance (MoF), Education (MoE), and Labor (MoL). A NFIS Implementation Unit (Secretariat) was also established,

<sup>6</sup>. EBRD and Frankfurt School of Finance and Management, “Increasing MSMEs’ Access to Finance in Jordan – What the Market Says?”, Mert Dedevas, March, 2016, <http://www.msmejordan.com>

mandated to support the coordination, monitoring and evaluation of the NFIS and provide research to inform policy making in strategically important developmental areas. The Secretariat is housed under the Payments System of the CBJ, and currently has three members as well as a director (who is also the Payments System Director).

- Each member of the Financial Inclusion Technical Committee (FITC) chairs one out of six Working Groups which cover the following thematic areas: (i) Payments; (ii) Microfinance; (iii) SME finance; (iv) Financial Education; (v) Financial Consumer Protection; and (vi) Data. The FITC consists of seven core members (the Chairman and six members representing the chairpersons and coordinators of the six thematic working groups). The working groups were established to help implement the NFIS and each working group is expected to meet monthly, and report on progress in developing the NFIS. Working groups are also tasked with finalizing action plans and implementing the strategy and its various actions, and may eventually break up into sub-groups for detailed action planning and implementation.
- In November 2016, CBJ published the NFIS vision document which identified five key pillars for NFIS. These include: (i) financial education among school students and various segments of the society; (ii) consumer protection; (iii) enhancing SMEs access to finance; (iv) access to microfinance services; and (v) digital payments. Data collection, measurement, analysis and evidence based financial inclusion policies and targets are incorporated in the NFIS vision document as cross cutting pillars to ensure each of the five pillars are supported with robust evidence.
- The CBJ mandated the Gesellschaft für Internationale Zusammenarbeit (GIZ) (with co-funding from the European Union) to develop the NFIS. A private firm was contracted by CBJ to conduct an in-depth market diagnostic study to provide a baseline for financial inclusion in preparation for the NFIS. The diagnostic study will build on full-fledged demand side and supply side studies. On the demand side, a nationally representative, household-level survey of individuals is currently being conducted in order to analyze data across key socio-economic (income levels), demographic (gender, age) and geographic segments. On the supply side, relevant data relating to the financial infrastructure and providers is currently being compiled in order to assess levels of financial access and usage as well as to analyze barriers across different product categories for both households and businesses (i.e. micro, small and medium-sized enterprises). The results of the diagnostic financial inclusion study were announced in October 2017, and the NFIS was launched in December 2017.
- In 2016, the CBJ announced its commitment to promote financial inclusion through a Maya declaration at the Alliance for Financial Inclusion (AFI) Global Policy Forum by setting a national goal of increasing financial inclusion from the current level of 24.6 percent to 36.6 percent of the adult population by 2020. To achieve this goal, the Central Bank detailed nine specific targets under the Maya Declaration, which have been communicated to AFI. Jordan's commitments will be included in AFI's Data Portal where their progress and achievements will be tracked and shared throughout the AFI Network. The targets include: (i) finalizing the draft of the National Financial Inclusion Strategy by the end of 2017; (ii) formulating comprehensive digital financial services

(DFS) and MFIs financial consumer protection guidelines by 1<sup>st</sup> quarter 2017<sup>7</sup>; (iii) continuing to champion the financial education program into the existing Jordanian school curriculum from class 7 to class 11 by 2020; (iv) enhancing interoperability among the payments systems in the kingdom by the end of 2018; (v) ensuring efficient and responsible growth of the microfinance sector as part of the formal financial system; (vi) providing the refugees and non-nationals with access to digital financial services; (vii) ensuring the provision of an enabling legislative and regulatory environment for digital financial services; (viii) upgrading financial inclusion data collection and measurement to align with AFI's network to produce comparable indicators by 2018; and (ix) increasing the financial inclusion access of Jordan's youth (15-22 years) by 25,000 annually by 2020.

- Moreover, CBJ has worked in the last four years on building an infrastructure for payment systems, including interoperable platforms for mobile money and bill payments. The CBJ has progressively modernized its internal systems to support a greater shift of Government payments into electronic payments. An ongoing project with GIZ called “Digi#ances” aims to target low income Jordanians and refugees through mobile payment (JoMoPay) to provide them with digital wallets to receive money and transact. This is accompanied by financial literacy programs and outlook for digital cross-borders remittances routes.
- The GoJ has announced its commitment to digitizing money transfers. This is of importance as estimates from the World Bank Universal Financial Access (UFA) data portal indicate that 0.2 million adults could be reached in Jordan by digitizing government-to-person (G2P) payments. Currently, only 160 out of 260 government services are paid electronically in the system while government transactions in the system are growing exponentially in terms of volume and number.
- Moreover, the CBJ is committed to improving digital financial services and fostering innovative financial technologies. The CBJ has taken preliminary steps to establish a regulatory sandbox<sup>8</sup> to be a safe space where businesses can test innovative products without immediately incurring normal regulatory consequences<sup>9</sup>. This includes the development of an evaluation criterion for the sandbox (see Annex 4) based on international examples and in consultation with the Financial Conduct Authority (FCA) in the United Kingdom, Bank Negara Malaysia, and Monetary Authority of Singapore (MAS). This authorized sandbox is envisioned to allow FinTech<sup>10</sup> firms to test their ideas, be open to firms from the region to experiment in Jordan for FinTech innovation, and keep a level playing field.

6. With the objective of attaining a more inclusive financial system, this proposed project comes at a particularly opportune time. The proposed project will assist the CBJ in effective

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<sup>7</sup> This target has been met.

<sup>8</sup> A Regulatory sandbox is a safe place where businesses can test innovative products without immediately incurring the normal regulatory consequences. Regulatory sandboxes are not only used where new risks and business models are involved, but also when the regulator is seeking to relax some regulatory constraints based on new ways of mitigating risks.

<sup>9</sup> Central Bank of Jordan. “Fintech and Regulatory Report”, 2017.

<sup>10</sup> FinTech refers to technological innovation in the financial sector.

NFIS implementation complementing and build upon technical assistance (TA) currently provided by GIZ to design an NFIS. The proposed project will also provide TA to operationalize a FinTech regulatory sandbox to enhance digital financial inclusion.

### C. Alignment with Transition Fund Objective

7. The overall objective of the project is to promote financial inclusion and digital financial services by supporting the implementation of Jordan's National Financial Inclusion Strategy (NFIS). The proposed activity is closely linked to three pillars of the Middle East and North Africa (MENA) Transition Fund, namely: (1) Investing in Sustainable Growth, (2) Inclusive Development and Job Creation, and (3) Enhancing Economic Governance.

8. **Pillar 1: Investing in Sustainable Growth.** The proposed activities, by contributing to achieving NFIS goals including expanding access to digital financial services, the inclusion of youth and women and overall increases in the level and quality of financial inclusion in Jordan, will support the sustainable growth agenda.

9. **Pillar 2: Inclusive Development and Job Creation.** Financial inclusion is an enabler and accelerator of job creation, economic and social inclusive development. Affordable access and use of financial services helps youth, women and small business owners (including those in the remote areas) generate income, manage irregular cash flow, invest in opportunities, strengthen resilience to downturns, and work their way out of poverty.

10. **Pillar 3: Enhancing Economic Governance.** One of the barriers to a sound economic governance and implementation of effective financial inclusion policies in Jordan has been lack of adequate financial inclusion data, as well as insufficient practices in structuring and implementing data collection and analyzing this data to inform the policies. The proposed activity will strengthen the capacity of Jordan in these domains, hence contributing in enhancing the economic governance moving forward.

11. Finally, the proposed project through peer learning and knowledge exchange among financial regulators and policymakers for the design and implementation of innovative financial inclusion policy solutions is directly in line with the '*Deauville Partnership Action Plan for Financial Inclusion*' which represents the first step of a coordinated financial inclusion effort across the Arab region.

### D. Higher Level Objectives to which the Project Contributes

12. The proposed project contributes to the effective implementation of the national financial inclusion strategy, which promotes financial access, reduces exclusion and supports financial deepening and economic growth. Affordable access to and usage of financial services helps youth, women and small business owners (including those in remote areas) generate income, manage irregular cash flow, invest in opportunities, and strengthen resilience. According to the World Bank Universal Financial Access (UFA) data portal, the successful implementation of an NFIS in Jordan can help serve roughly 0.8 million adults<sup>11</sup>. By supporting a well-functioning NFIS Secretariat, a comprehensive monitoring and evaluation (M&E) system, improved data infrastructures, and digital financial services, this project contributes to achieving NFIS goals like expanding access to digital financial services,

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<sup>11</sup> <http://ufa.worldbank.org/country-progress/jordan>

the inclusion of youth and women and overall increases in the level and quality of financial inclusion in Jordan.

13. The proposed operation is closely linked to the World Bank Group (WBG)'s Country Partnership Framework (CPF) FY17-22 (Report no. 102746-JO), which highlighted the need to ensure broader financial access for disadvantaged segments of the population—women and youth, as well as lagging regions. In particular, the proposed project, through promoting financial inclusion, is closely linked to pillar 1 of the CPF: “Fostering the conditions for stronger private-sector-led growth and better employment opportunities for all”, and the CPF strategic outcome 1.3: “Increased access to finance and skills development”. The proposed project, through promoting financial inclusion, is supporting private sector driven job creation and contributing to the reduction of regional disparities. Increased access to and use of formal financial services will enable individuals to start and expand businesses, invest in education, manage risks, and absorb financial shocks. Financial inclusion also promotes job creation as it helps grow enterprises, many of which are constrained by lack of access to credit and savings services that would enable them to invest in fixed capital, expand, and employ more people.

14. The proposed project is also directly in line with the WBG's Regional Strategy for the Middle East and North Africa (MENA), which focuses engagement on inclusion, job creation and sustainable private sector-led growth. In particular, the project is aligned to the first pillar: renewing the social contract between citizens and the state in that it promotes a new social contract—one that creates private-sector jobs, and the second pillar: Resilience, through expanding access to financial services for the marginalized and underserved segments like the poor, women and refugees.

15. The project's objective is aligned with the World Bank's strategic goals and global initiative to enable Universal Financial Access<sup>12</sup> by 2020. Financial inclusion is an enabler and a catalyst for achieving the World Bank Group's goals of ending extreme poverty by 2030 and boosting shared prosperity for the bottom 40 percent of the population in all developing countries in a sustainable manner.

## **II. PROJECT DEVELOPMENT OBJECTIVE**

### **A. PDO**

16. The proposed project development objective (PDO) is to promote financial inclusion and digital financial services by supporting the implementation of Jordan's National Financial Inclusion Strategy.

### **B. Project Beneficiaries**

17. The direct project beneficiary is the CBJ in that the project will enable the Central Bank to: (i) support the implementation of the NFIS, develop a well-functioning NFIS implementation unit, operationalize a comprehensive M&E system and improve existing data infrastructure; (ii) develop a country-specific program of peer-learning and knowledge sharing; and (iii) establish a regulatory sandbox to facilitate the development and adoption of innovative financial technologies. Other beneficiaries include all stakeholders engaged in the

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<sup>12</sup> UFA 2020 goal envisions that adults worldwide -- women and men alike -- will be able to have access to a transaction account or an electronic instrument to store money, send payments and receive deposits as a basic building block to manage their financial lives.  
<http://www.worldbank.org/en/topic/financialinclusion/brief/achieving-universal-financial-access-by-2020>

NFIS implementation as well as market players in emerging FinTech innovations. In addition, all individuals and firms, particularly those from more marginalized populations including women and refugees, will benefit from improved financial inclusion policies and enhancements in digital financial services, as the policies will enable services to reach end users in more appropriate and tailored ways, and the regulatory sandbox will help to explore FinTech solutions that can aid in the inclusion of underserved adults.

#### **A. PDO Level Results Indicators**

18. Progress towards achieving the project's objectives will be measured by a series of quantitative and qualitative indicators at the PDO, and at the intermediate level (Results Framework is outlined in Annex 1). Key results indicators at the PDO level are: (i) The Financial Inclusion Monitoring and Evaluation (M&E) system is adopted and operationalized; (ii) NFIS technical action plans in digital finance and data are adopted; (iii) % of adults owning a transaction account; and (iv) a regulatory sandbox is established and launched.

### **III. PROJECT DESCRIPTION**

#### **A. Project Components**

##### **Component 1: Operationalizing the Financial Inclusion Implementation Unit at CBJ (US\$ 275,000).**

19. The CBJ is planning to launch an ambitious National Financial Inclusion Strategy (NFIS) which builds off of its Maya commitments, and aims to reduce financial exclusion in Jordan. Currently, GIZ extends support to the Secretariat, including a resident advisor who assists in designing the NFIS and identifying national targets to be included in the NFIS results framework. Once the NFIS is launched, there is a need to operationalize a comprehensive M&E system for financial inclusion to track progress, identify obstacles, and establish an evidence base for what works in expanding access to financial services for individuals and SMEs. This will ensure effective financial inclusion strategy development, policymaking, regulation, and supervision.

20. The comprehensive M&E system will include: (i) tracking the national Financial inclusion targets (as identified in the NFIS); (ii) a comprehensive Monitoring framework which tracks various levels of indicators (at the action / activity, outcome and national level) beyond the NFIS identified targets; (iii) usage of robust data infrastructure; and (iv) evaluation and analytical activities.

21. The CBJ faces some capacity constraints to set up and implement the comprehensive M&E system needed for NFIS tracking. This includes: (i) an understaffed Secretariat; (ii) need for training in the approach to operationalize an efficient comprehensive M&E system; (iii) a gap in data infrastructure (the current demand side survey is not reoccurring, and the process of collecting the supply side data will be burdensome; (iv) need for optimal survey solutions and indicators; (v) lack of automated process to collect supply side data indicators from

various data sources and institutions; (vi) lack of geospatial data and access point through mapping; and (vii) knowledge for conducting rigorous evaluation for policy making<sup>13</sup>.

22. This component aims to support the implementation of the NFIS by contributing to a well-functioning NFIS Secretariat, operationalizing a comprehensive M&E system and improving existing data infrastructure. This component consists of three sub-components:

23. **Sub-component 1.1 – Build the Capacity of the Secretariat through Training and Workshops:** This sub-component provides knowledge sharing and support based on international experiences to set and provide a foundation for the CBJ to better design and operationalize the M&E system. Workshops and training will be provided to assist the CBJ in the following areas: (i) approaches to developing and operationalizing an M&E framework (including training on current M&E toolkits, strategies to develop the full framework, templates and reporting systems); (ii) conducting impact evaluations; (iii) collecting and analyzing geospatial data; (iv) and ad hoc TA to assist in developing policy research and reporting. The workshops will describe best practices, linkages with broader theories of change (which include the approach to identifying and narrowing relevant indicators and appropriately tracking and highlighting progress on activities, outcomes and high level improvements), strategies to collect and integrate multiple layers of data into one comprehensive framework that can be used for policy making, and will showcase and train staff on available toolkits that can be used as a basis for the development of CBJ policy tools and feedback loops. This data will feed into tracking frameworks that will highlight progress and identify bottlenecks or stalled actions, so that relevant stakeholders and committees can provide technical guidance to smooth and further push action implementation. TA will help build capacity and apply the toolkits and knowledge, and integrate the practices into the functions of the Secretariat.

This sub-component will complement the activities of GIZ, who plans to support the CBJ in developing NFIS national targets and indicators.

24. **Sub-component 1.2 – Assess and Improve Existing Data Infrastructure:** This sub-component will provide opportunities to assess and develop data solutions to ensure sustainability and to enhance data infrastructure for longer term Secretariat tracking, with a particular focus on developing country-owned reoccurring data (both on the demand and supply) through: (i) integrating relevant indicators and modules into pre-existing survey instruments (in particular by the Jordan Department of Statistics<sup>14</sup>); (ii) enhancing supply side data collection mechanisms (including through enhancing data provided by the private sector); and (iii) integrating, collecting and analyzing geospatial data, and disseminating maps.

25. **Sub-component 1.3 – Establish RegTech Solutions for Secretariat Functions:** This sub-component will support hiring a specialized firm to build automated solutions to NFIS M&E tracking. This will include conducting a targeted scoping to identify suitable solutions, design specifications and establish solutions. Solutions may include, for instance, an online

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<sup>13</sup> Many policy reforms are often not evaluated in their effectiveness prior to national rollout, and their impacts and outcomes are often unknown. Rigorous evaluation methods and better empirical evidence may be useful to inform key policies that develop as part of the NFIS action planning.

<sup>14</sup> Jordan's National Bureau of statistics.

data portal to aid and organize the collection and analysis of supply side data from various institutions<sup>15</sup>.

## **Component 2: Developing a country-specific program of peer-learning and knowledge sharing (US\$225,000)**

26. The CBJ requires capacity building to develop technical expertise to craft relevant action plans and provide technical research to shape government interventions. There is need for knowledge sharing for digital financial inclusion and policy research for implementation. In particular, the CBJ Secretariat faces capacity constraints with respect to emerging digital innovations and their effect on financial inclusion and access. Working groups and technical committees also require expertise and targeted knowledge and workshops for developing and implementing NFIS action plans. In addition, study tours and experiential learning will assist the CBJ in fully operationalizing their Secretariat and understanding the implementation functions and structures from other successful country experiences.

27. The objective of this component is to support building the capacity of the NFSC, NFTC, Working Groups, and Secretariat through knowledge sharing, technical workshops and study tours. This component comprises of three sub-components:

28. **Sub-component 2.1: The Jordanian AFI membership during project duration will be funded under this sub-component** and will engage Jordan in the following member services, which are designed to address the national objectives of policymakers and regulators and will be modified to also address the national objectives of Jordan:

(i) Working Groups: These groups of 15-40 member institutions focus on specific policy areas, including: Digital Financial Services; Consumer Protection and Market Conduct; Financial Inclusion Strategy; Financial Inclusion Data; and SME Finance. The working groups are chaired by members and have led to important reforms in many of the countries involved and facilitated the production of policy guidelines and tools that have practical relevance.

(ii) Participation in AFI's Global Policy Forum (GPF): The GPF is regarded as the leading global knowledge exchange event on financial inclusion policymaking. Most sessions are hosted by members who share 'on the ground' experiences.

(iii) Peer Learning Initiative with Standard Setting Bodies (SSBs): This will provide opportunities for Jordan to participate in shaping and influencing the global agenda through knowledge sharing with SSBs, which can have a significant impact on how the global financial system helps or hinders financial inclusion.

29. **Sub-component 2.2: This sub-component will organize technical workshops on priority areas that would support Jordan in meeting its Maya and NFIS commitments.** The CBJ and relevant stakeholders will benefit from technical workshops and trainings, to aid in action plan development, implementation and policy guidance. There is an identified need for a particular focus on digital finance. Planned workshops may include: Regulatory Sandboxes and FinTech Innovators (to complement component 3 below); Development of Digital Financial Services (DFS); Alternative Credit Scoring, Alternative Complain Handling,

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<sup>15</sup> The cost depends on final specifications and needs of CBJ identified during the scoping mission with IT Expert. If costs can come down, then it will be re-allocated to component 1.2 as integrating new survey modules can cost up to \$120,000.



Distributive ledger Technologies, Mobile Payments & Agent Networks, Development of Digital Financial Capability Programs and Awareness Campaigns; Leveraging data for product design and delivery; Block Chain technologies; electronic Know-Your-Customer (eKYC); and Proportionality for DFS.

30. **Sub-component 2.3: This sub-component will plan and conduct specific study tours for the CBJ in order to enhance their capacity and NFIS supervisory role.** This sub-component will directly complement the efforts of component 1 and 3 (below), and study tours can be facilitated in key areas. First, a study tour can be conducted to support the sharing of experience learned on regulatory sandboxes, accelerators and hubs from across the world. This sub-component will cover the expenses related to study tours, training and workshops. Second, a study tour to support understanding successfully operational Secretariats, and its various NFIS implementation functions.

31. CBJ will endorse a selection process among Financial Inclusion Secretary, FITF and FISC for participation in the study tours and AFI events to ensure efficient targeting of participants who have the ability to spread knowledge and generate systematic change.

### **Component 3: Establishing a regulatory sandbox to facilitate the development and adoption of innovative financial technology (US\$ 550,000).**

32. The current regulatory environment in Jordan constrains FinTech companies in testing and innovating new financial technologies. The licensing and capital requirements in Jordan make it difficult for smaller non-banks (e.g. start-up FinTech companies) to receive licenses to pilot and rollout their innovative technologies. In addition, many new FinTech innovations or entities may not fall under the current regulatory sphere to be licensed or approved to test their technologies [Box 1 details recent case studies of Jordanian FinTech firms that faced regulatory constraints where e-cheque and QR code seek to do new things not allowed by the current regulations because of the perceived risks]. Other regulatory factors may also reduce ability to innovate, for instance, rules-based AML-CFT regulations that restrict developments in eKYC or innovative and alternative uses of big data.

33. In response to market needs, the CBJ wants to encourage innovation with a particular focus on block chain technologies, leveraging of big data, distributed ledgers and eKYC. In 2016, the authorities began to rollout Jordan's new Smart ID cards<sup>16</sup> (which contain a chip technology) and targeted 5 million by end of 2016, and full rollout is expected by end of 2017. The IDs contain a series of applications, including health insurance and driving licenses. Digital IDs can be leveraged to enable eKYC<sup>17</sup> as they can be accessed and validated by financial institutions remotely. This enhances financial inclusion and makes it easier (particularly for women) to access financial services.<sup>18</sup> In this respect, the regulatory sandbox will be a mechanism in which the CBJ can identify policy implications in light of new digital innovations, for instance, developing strong financial consumer protection measures. Such

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<sup>16</sup> The new NID Cards with smart chips that contain biometric verification will allow consumers to remotely onboard for new services, in addition to benefits for the regulator to enhance the financial system integrity and better customers' due diligence and more precise official documentation and eliminating fraud.

<sup>17</sup> E-KYC is the process of verifying KYC regulations electronically, through use of Digital Identity Systems that collect verified data through distributed ledger technology. Lack of a robust, verifiable ID system for KYC continues to exclude financially underserved populations

<sup>18</sup> For instance, the use of e-KYC can increase access to finance for women by enabling them to gain access to financial services by establishing economic credentials for adults with limited identification and negotiating gender bias through digital ID platforms (particularly in areas where physical presence of male is required).

FinTech innovations will also be an effective and inclusive tool to financially include refugees. For instance, distributed ledgers and block chain technologies can help build an up-to-date database in which refugees may gain clearer, authorized forms of identification, thereby meeting eligibility requirements of different products and services.

34. A regulatory sandbox for Fintech contributes to Jordan’s broader NFIS agenda and national goals. The sandbox will foster innovation to both understand the implications of such FinTech innovations in order to enable similar products and services, while also gaining a better understanding of risks involved, required consumer protection and Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) requirements. The regulatory sandbox will enable regional FinTech innovations, including RegTech solutions (particularly with big data, distributed ledger technology (DLTs) and eKYC) that enhance financial inclusion. This component comprises of two sub-components:

35. **Sub-component 3.1 – Establishing the Regulatory Sandbox:** This sub-component will support the development and operationalizing of the regulatory sandbox with the goal of enhancing financial inclusion and improving safety and efficiency, and provide TA to establish the internal processes, procedures and frameworks. This sub-component includes the following activities:

(i) **An assessment to structure the regulatory sandbox:** This assessment will cover identifying types of shared infrastructures that can be supported by the CBJ (like open APIs, cloud-based infrastructures, distributed ledger technologies, either by CBJ on its own or in partnerships with consortiums, shared country infrastructures, etc.), developmental priority areas (like simplify customer due diligence processes, lower cost of domestic and international remittances and enhance access to payment and financial services) and other strategically important specifications including management roles, staffing needs and responsibilities (including for selecting pilots).

(ii) **TA to the CBJ in drafting and developing a high-level framework:** This includes issuing the guidelines for sandbox applications, reviewing and approving pilots, setting rules for applicants to conduct pilots, establishing a monitoring system with key performance indicators to track progress and evaluating outcomes.

(iii) **TA and capacity building to support and develop CBJ**

**Box 1: Recent Case Studies of Jordanian FinTech innovations that have faced Regulatory Constraints**

**e-Cheque:** A startup innovation company aimed to initiate new electronic instruments (e-Cheques) that offer, issue and endorse cheques through the internet and mobile banking systems. The cheque is then exchanged and cleared through the centralized system. There are many advantages of e-cheques including decreasing the number of counterfeit cheques and increasing efficiency and effectiveness of issuing, exchanging and processing cheques. However, the current regulatory environment made the company unable to test or experiment e-Cheque innovation. **QR Code:** A startup innovation company aimed to establish a QR code (a machine readable code that will allow the reading of information through smart phones) for banks to print on cheques (like the MICR line) which ensures an additional security mark to reduce fraud. However, company is unable to test or experiment with the QR code innovation, and there are no clear regulatory environment to regulate this innovation or understand its policy implications. **Solfeh:** a startup innovation with an online micro lending platform that allows users to receive short term loans. The solfeh.com system offers online credit scoring that allows companies to evaluate borrowers for a loan, enables borrowers to choose the amount and repayment schedule, and allows for online loan applications through its website. The borrowers can receive money from authorized money changers when the loan is approved and repayment can be deducted directly from their salary. However, Solfeh was unable to register as a company (due to capital and licensing requirements) and does not fit under any regulatory umbrella that applies to its business.

**core team:** This includes covering the cost of hiring staff and consultants and providing training to the team to help operationalize and manage the regulatory sandbox.

36. **Sub-component 3.2 – Financing selected pilots:** This sub-component will finance pilots in key developmental areas that promote innovations in digital finance or focus on solutions to critical issues (like solutions towards refugees). Applicants to the regulatory sandbox can apply for pilot financing. In addition to financing pilots under the regulatory sandbox, CBJ can also finance stand-alone FinTech pilots (including for RegTech). In addition, support will be provided to set up an inter-agency panel to manage pilot selection upon a pre-defined criteria and process. In addition, other sources of funding can be leveraged to support pilots.

## B. Project Cost and Financing

37. The proposed project is an Investment Project Financing in the amount of US\$ 1.05 million which will be financed through the MENA Transition Fund. The project cost and financing are outlined in Table 1.

<b>Table 1: Cost by Component</b>	<b>Transition Fund (US\$)</b>	<b>Funding %</b>
<p><b>Component 1: <i>Operationalizing the Financial Inclusion Implementation Unit at CBJ.</i></b></p> <ul style="list-style-type: none"> <li>• <b>Sub-component 1.1:</b> Build Capacity of Secretariat through Training and Workshops</li> <li>• <b>Sub-component 1.2:</b> Assess and Improve Existing Data Infrastructure</li> <li>• <b>Sub-component 1.3:</b> Establish RegTech Solutions for Secretariat Functions</li> </ul>	<p><b>275,000</b></p> <p>41,250</p> <p>85,250</p> <p>148,500</p>	<p><b>26.19</b></p>
<p><b>Component 2: <i>Developing a country-specific program of peer-learning and knowledge sharing.</i></b></p> <ul style="list-style-type: none"> <li>• <b>Sub-component 2.1:</b> The Jordanian AFI membership during project duration</li> <li>• <b>Sub-component 2.2:</b> Organize technical workshops on priority areas that would support Jordan in meeting its Maya Declaration and NFIS commitments</li> <li>• <b>Sub-component 2.3:</b> Plan and conduct specific study tours for the CBJ in order to enhance their capacity and NFIS supervisory role</li> </ul>	<p><b>225,000</b></p> <p>45,000</p> <p>67,500</p> <p>112,500</p>	<p><b>21.43</b></p>
<p><b>Component 3: <i>Establishing regulatory sandbox to facilitate the development and adoption of innovative financial technology.</i></b></p> <ul style="list-style-type: none"> <li>• <b>Sub-component 3.1:</b> Establishing the Regulatory Sandbox</li> <li>• <b>Sub-component 3.2:</b> Financing small-scale pilots in the area of FinTech</li> </ul>	<p><b>550,000</b></p> <p>275,000</p> <p>275,000</p>	<p><b>52.38</b></p>
<b>Total Project Cost</b>	<b>1,050,000</b>	100

### C. Analytical Underpinnings and Lessons Learned and Reflected in the Project Design

38. The project design fully reflects lessons learnt from recent, ongoing, and completed WBG activities, as well as, donor and development partner projects, and international best practice in the financial inclusion area. This project draws on learnings from similar projects, for instance the World Bank's Financial Inclusion Support Framework (FISF), a trust funded project that provided targeted technical assistance and capacity building to support financial inclusion in a few selected countries, particularly through capacity building for Secretariats to develop, implement and evaluate an NFIS. In addition, this project draws on World Bank's best practices in developing, implementing and measuring an NFIS<sup>19</sup>. Lastly, lessons learnt from similar operations (particularly for digital finance) in India, and other developing and emerging economies are applied.

39. Key lessons learned from previous operations and their reflections in the project design are summarized as follows:

- ***Implementing entity's accountability and ownership is essential for the successful execution of the project.*** The project's main counterpart CBJ, is a prominent and credible institution with a competent Board, strong management capacity, market knowledge and a good governance structure, and as such, has been assigned a clear responsibility for project implementation. CBJ Board is reform oriented and committed to the financial inclusion agenda.
- ***Effective donor coordination is a key requirement to ensure synergies in approach and guidelines and for the success of project implementation.*** This proposed project is done in partnership between the World Bank, the AMF, AFI and GIZ, and will be implemented in coordination with other donors active in promoting financial inclusion to take advantage of synergies between different donor-funded activities. During implementation, the team will continue to undertake consultations with donors and development partners active in financial inclusion in Jordan to coordinate efforts and better identify the project's value added.
- ***Adequate supervision of the project should include clearly defined and transparent indicators for monitoring the implementation progress and measuring the overall impact.*** Clear project indicators have been defined in the Results Framework. Monitoring and evaluation will be an important aspect of the project. The regular monitoring indicators will help serve as an early warning system indicating the potential need for any modifications. Most importantly, it will push forward the effective implementation of financial inclusion strategy, with the clear timeline and the prioritization of tasks.

### D. Links with other World Bank Group Activities

40. The proposed project complements on-going WBG activities in Jordan, ranging from IBRD investment, to advisory services and technical assistance (TA) under the Regional World Bank-IFC MENA MSME Facility; and IFC advisory services.

41. **Enhancing Governance and Strengthening the Regulatory and Institutional Framework for MSME Development Transition Fund project.** The proposed project will be complementing the on-going MENA Transition Fund project ( Enhancing Governance and Strengthening the Regulatory and Institutional Framework for MSME Development Project)

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<sup>19</sup> <http://www.worldbank.org/en/topic/financialinclusion/brief/financial-inclusion-strategies-resource-center>

with CBJ. While the proposed project focuses on supporting the implementation of the NFIS (through supporting digital finance as one of the key NFIS pillars and improving data infrastructure), the on-going MENA Transition Fund project with CBJ focuses on the other pillars of financial inclusion strategy namely: Consumer Protection, Financial Literacy and MSMEs by providing technical assistance and capacity building to (i) strengthen Credit Guarantees Schemes; (ii) enhance the Consumer Protection Mechanism & Promote financial literacy; and (iii) support the development of the institutional framework for microfinance and non-bank financial institutions (NBFIs) supervision. This will ensure providing a comprehensive package of needed TA that covers all pillars of financial inclusion through client-executed operations, supporting the fostering of home-grown country-led reforms, which will ensure sustainability, ownership, as well as effective implementation of financial inclusion strategy.

42. **Lending:** the proposed project will complement the on-going WBG's US\$120 million MSME Development for Inclusive Growth Project to Jordan (Report no. 72284-JO and PAD3164), which aims to enhance the role of financial institutions in economic growth through financing and developing the MSME sector in Jordan.

43. **World Bank-IFC MENA Regional MSME Technical Assistance Facility:** The proposed project will be complementing the joint World Bank-IFC MSME Regional TA Facility (a multi-donor Trust Fund), which focuses on three main pillars, namely: (i) developing the enabling environment for MSMEs; (ii) providing advisory services to financial institutions that serve MSMEs; and (iii) building the capacity of MSMEs through entrepreneur networks, mentoring, and business incubator-type services.

44. Implementation support missions will take place at least once every six months. In addition, being a client-executed operation, the proposed project will further complement technical assistance provided by GIZ supporting the fostering of home-grown country-led reforms, which will ensure sustainability, ownership, as well as capacity building.

45. The World Bank is ensuring complementarity between these diverse activities to ensure synergies and effective results on the ground. Hence, this project should be seen as part of a package of parallel assistance that helps to promote financial inclusion. Such a design is considered to be a technically-sound all-inclusive package of assistance to address this issue. The TA provided will complement and not duplicate the activities supported by other donors.

## **E. Collaboration with Development Partners**

46. During implementation, the World Bank's team will continue to undertake consultations with donors and development partners active in financial inclusion in Jordan. This will coordinate efforts and take advantage of synergies between different donor-funded activities. The proposed project activities will be implemented in close coordination with the Arab Monetary Fund (AMF) tapping on AMF existing platform including the AMF Task Force on Financial Inclusion (FITF) which helps ensure active participation of policymakers and regulators from across the region, including from the other Deauville Partnership focus countries in the peer-learning activities. The World Bank will also work closely with AMF benefitting from the AMF Arab Region Initiative (FIARI)<sup>20</sup>, in strengthening the capacity of

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<sup>20</sup> FIARI is AMF/AFI/GIZ Financial Inclusion Regional Initiative which is a Financial Inclusion policy-peer learning regional platform in the Arab Region which aims at strengthening the capacity of financial policymakers and regulators to design and implement financial inclusion policies. The initiative will be launched during the 2017 AFI Global policy forum that will be held on September 13-15, 2017.

financial policymakers and regulators in the Arab Region to design and implement financial inclusion policies. In particular, this project will leverage the regional knowledge sharing platforms, and draw on learnings provided by the AMF, and will contribute to new experiences and knowledge to present for other Arab financial inclusion secretariats to use. In addition, coordination with AFI through the second component will offer a unique, member-driven, peer-learning model, will benefit Jordanian policymakers and regulators, and provide a platform for Jordan to share its experiences.

47. This proposed project will also be implemented in close coordination with GIZ. GIZ (with co-funding from the European Union) provides TA to CBJ to develop the Governance structure and is effectively coordinating the development of the National Financial Inclusion Strategy (NFIS). In addition, GIZ is providing support to conduct in-depth diagnostics to provide a baseline for financial inclusion in preparation for finalizing the NFIS and action plans. The proposed project will build upon these efforts by providing support to operationalize a well-functioning NFIS implementation unit, a comprehensive monitoring and evaluation system, and a country specific program of peer learning and knowledge sharing.

## **F. Stakeholders' Consultation**

48. Throughout the project preparation phase, CBJ discussed the design and details of the proposed project with different stakeholders. Consultations were undertaken through financial inclusion thematic working groups that were formed with membership of all relevant stakeholders that are actively involved in the development of the NFIS to help implement the NFIS. The consultations with numerous stakeholders will continue throughout project implementation to ensure continued stakeholder buy-in and ownership.

## **IV. IMPLEMENTATION**

### **A. Institutional and Implementation Arrangements**

49. The CBJ is the implementing entity for the project, and is responsible for coordinating and managing the overall operation. The CBJ was selected as the implementing agency since it is responsible for the development and implementation of the NFIS in Jordan.

50. The CBJ is ready to implement the proposed project and manage recipient executed funds. The CBJ has already demonstrated adequate capacity to implement, coordinate and manage other ongoing IBRD projects. In particular, the CBJ has demonstrated its capacity under the on-going "Micro, Small and Medium Enterprise Development for Inclusive Growth project" (US\$120 million), and the MENA Transition Fund "Enhancing Governance and Strengthening the Regulatory and Institutional Framework for Micro, Small and Medium Enterprises Development project" (US\$3 million). In addition, on-going WBG projects have invested significantly in the capacity of the CBJ to ensure project readiness. This project comes at an opportune time since the CBJ has taken the lead in developing an NFIS and is pushing for transformational and regulatory reforms, and has the capacity to do so. Arrangements are in place to ensure adequate project implementation support, covering fiduciary and safeguards aspects, with at least semi-annual implementation support missions. The implementation support team will draw on expertise from the World Bank as well as, external experts, where necessary.

51. The World Bank will support the implementation through supporting CBJ as identified under project description. Specifically, the World Bank Team will: (i) advise/support the

authorities in their effort to conduct training and organize Workshops referred to under sub-component 1.1, in terms of developing the material, and setting the agenda and delivering the training; (ii) advise the Financial Inclusion Unit on integrating relevant indicators and modules into pre-existing survey instruments (in particular by the Department of Statistics) and integrating, collecting and analyzing geospatial data, and disseminating maps; (iii) advise CBJ in drafting Terms of Reference (ToR) to hire a specialized firm to build automated solutions to NFIS M&E tracking; (iv) organize technical workshops on priority areas that would support Jordan in meeting its Maya and NFIS commitments; (v) facilitate specific study tours for the CBJ in order to enhance their capacity and NFIS supervisory role in terms of setting the agenda and identifying the best destinations, while the grant will cover travel and accommodation costs. Under Component 3: The World Bank will provide TA and support to identify relevant technical consultants in order to: (i) conduct an assessment to design the specifications for the regulatory sandbox; (ii) draft and develop a high level framework including guidelines for sandbox applications, reviewing and approving pilots, setting rules for applicants, etc; (iv) provide capacity building to support to key staff to operationalize the sandbox; and (v) help the CBJ establish a monitoring system with key performance indicators to track progress and evaluating outcomes.

52. The CBJ shall establish, and thereafter maintain throughout the period of Project implementation a Project Management Unit (PMU), with qualified staff and from the Financial Inclusion Secretariat and different CBJ departments with relevance to project components. The PMU will also include a procurement and financial management experts who were members of project implementation units of other World Bank projects and were trained from previous projects on World Bank procedures and guidelines. Thus, tapping on the expertise already developed in CBJ from other WBG TA to ensure smooth and timely project implementation. The PMU at CBJ will oversee and manage this project and will report directly to the Governor. The Financial Department in CBJ will be responsible for procurement procedures.

53. The CBJ has prepared an Operational Manual, with guidance from the World Bank, which included financial management and procurement arrangements and described the roles and responsibilities for project implementation, the institutional and implementation arrangements safeguards and disbursement.

54. The methodology to be adopted by this project will seek to ensure effective coordination with the Arab Monetary Fund, AFI and GIZ through periodic joint implementation support missions to be led by the World Bank, AMF, and GIZ resident advisor at CBJ.

## **B. Results Monitoring and Evaluation**

55. A robust system to monitor and evaluate progress is crucial to the project success, and will be implemented based on the agreed results framework, monitoring arrangements and indicators. A strong M&E framework to track inputs, outputs, and outcomes in a systematic and timely fashion has been discussed and agreed to with CBJ. M&E will be based on clearly identified benchmarks and output indicators that feed into the project indicators (Annex 1).

## **C. Sustainability**

56. Key elements in the sustainability of the proposed project include CBJ's successful implementation of the project, the solid Governance structure currently in place to develop and ensure effective implementation financial inclusion strategy, and the Government's strong commitment to improving financial access, removing administrative hurdles, expanding digital financial services, and support youth and women access to finance.

57. Project sustainability will be facilitated by the strong partnership established between the World Bank and the Jordanian authorities over the past years through an integrated work program, reflected in an effective policy dialogue, analytical work, TA, and key operation. The World Bank team has had a strong and professional policy dialogue with CBJ, as well as the Ministry of Planning and International Cooperation and Ministry of Finance, where commitment to financial sector reform was evident.

**V. KEY RISKS AND MITIGATION MEASURES**

**A. Systematic Operations Risk Rating Tool (SORT)**

<b>Risk Category</b>	<b>Rating</b>
1. Political and Governance	Moderate
2. Macroeconomic	Moderate
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	High
5. Institutional Capacity for Implementation and Sustainability	Moderate
6. Fiduciary	Low
7. Environment and Social	Low
8. Stakeholders	Moderate
9. Other	
<b>OVERALL</b>	Moderate

**B. Overall Risk Rating Explanation**

58. **The overall risk of the project is rated Moderate.** The project could be confronted with various risks at the stakeholders’, operating environment, implementation, and sustainability levels. These risks were carefully analyzed and mitigation measures were identified. This is addressed through the limited number of activities and the duration of the project (three years), which allows for sufficient time for effective and smooth implementation. Expect for technical design risk, all risks are rated Moderate or Low.

59. **The moderate political and governance risk comes from policy commitment to go through with the necessary reforms.** The project is directly supporting the government’s priority agenda for financial inclusion. CBJ has taken the lead in developing the NFIS. Significant progress was achieved towards developing the NFIS. This includes establishing the Financial Inclusion Steering Committee (FISC), Financial Inclusion Technical Committee (FITC), Financial inclusion Secretariat, the drafting of the national governance structure and roadmap for the NFIS process; and launching the Demand side survey. Hence, it is not anticipated that the CBJ would reverse its support for the objectives and activities proposed under the project. Furthermore, the proposed project is designed in close consultation with CBJ, where a strong leadership is in place, and a momentum for reforms exists, and the activities planned under the project are fully owned by the concerned parties.



60. **The Moderate institutional capacity and sustainability risk is due to the fact that CBJ has a track record of effective implementation of donor-financed projects, including WBG projects.** The effective implementation of the MSME Development for the Inclusive Growth Project and on-going Enhancing Governance and Strengthening Regulatory and Institutional Framework for MSMEs, confirms the World Bank’s previous assessment of CBJ, which showed that it has adequate capacity to implement, coordinate and manage the project. In addition, a project coordination unit with dedicated staff supplemented with capable and qualified personnel or consultants is already in place and planned for the implementation of the project to mitigate this risk. The project will also be providing capacity to the implementing entity, and developing a clear institutional framework for execution, which streamlines the process and ensures successful completion of tasks.

61. **The high risk associated with the technical design of the project is due to the risk associated with the proposed financing modality of FinTech pilots.** The CBJ will establish a very clear framework for the regulatory sandbox and will set clear limits in terms of number of customers, types of customers and the total customer funds etc. to limit the scale of any pilots. Moreover, the CBJ will establish specific aspects on which the CBJ will not dilute any requirements like for example related to monitoring of AML/CFT and transparency requirements. This will avoid potential for dilution of the CBJ’s mandate for ensuring a safe and sound financial sector by playing this role. In terms of the grant facility, and in order to ensure that the pilots are being executed in a fair and transparent manner, the CBJ will establish a panel of independent experts to review and vet the proposals and make recommendations. The CBJ will also require all the institutions participating in the regulatory sandbox or piloting to make a public disclosure about this being a small scale live testing and that any direct losses incurred by the customers due to a product defect will be fully covered by the company offering the product or service.

62. **Stakeholders risk is rated Modest.** Project stakeholder risks include risks that could come from the large number of donors and development agencies that are working on financial inclusion in Jordan which could result in lack of coordination. The project team will continue to ensure donor coordination and consultations with numerous stakeholders throughout project implementation to ensure continued stakeholder buy-in.

63. **Fiduciary risk is low.** The CBJ will follow the World Bank procurement procedures in the implementation of the project activities. The Grant would be used to finance consulting services contracts in the range of US\$ 900,000. Procurement capacity assessment will be conducted during project appraisal to confirm the CBE capability to implement the project smoothly. Training will be provided and specific guidelines for processes and reporting will be detailed in the project’s operation manual (OM). In addition, arrangements will be put in place to ensure adequate project supervision, covering fiduciary and safeguards aspects, with semi-annual supervision missions. The supervision team will draw on expertise from the World Bank as well as external experts, where necessary.

## **VI. Appraisal Summary**

### **A. Economic and Financial Analyses**

64. **Project Development Impact.** The proposed operation will promote financial inclusion in Jordan. The project will provide necessary support to the CBJ to implement the National Financial Inclusion Strategy, based on international best practice. CBJ is not yet institutionally prepared to implement the National Financial Inclusion Strategy, and capacity building and training will be provided to the CBJ staff to enable them to ensure effective implementation.

65. This project will also assist the CBJ in enabling FinTech innovations that will result in the development of innovative digital financial products and services. Current FinTech innovations are disrupting traditional business models and conventional delivery of financial services. In order to understand policy implications of FinTech, regulators need to take an active approach to keep up with the accelerated pace of FinTech. By supporting an active approach, this project will reduce regulatory burdens and compliance costs, and can identify innovations which automate compliance tasks and reduce risks. When appropriately regulated, FinTech innovations increase efficiency and effectiveness of service delivery and key market infrastructures, which thereby reduces costs (often borne by the consumer).

66. ***Value Added of Bank's Support.*** The WBG will bring forward an array of in-house and global expertise in the area of financial inclusion and in particular through their Responsible Financial Access team, this includes: (i) the WBG's knowledge and unique expertise in developing, monitoring and evaluating global financial inclusion targets; and improvements in the scope, quality, and consistency of supply-side financial inclusion data collected from financial institutions in more than 15 countries in the past five years; (ii) the use of proven/widely used models for FI activities that the World Bank teams have supported around the world, through their involvement and application of their regional specific knowledge; and (iii) the World Bank's experience in facilitating country-led reforms and policy initiatives.

67. The AMF brings in their extensive knowledge of the region and their priority areas of reform. AMF in partnership with AFI and GIZ through AMF Financial Inclusion task force platform and FIARI initiative are providing TA to the Arab countries and has experience in dealing with central banks. AMF with its competent and experienced leadership has great credibility in Jordan and is entrusted by the authorities to promote financial inclusion. The World Bank will play a coordinators role, to ensure the most effective use of resources, tapping into the comparative advantage and expertise of the different institutions.

68. A major value added of this project would also be its contribution to strengthen the capacity of financial policymakers and regulators in the Arab Region to design and implement financial inclusion policies. Jordan, being a pioneer Arab country in drafting its financial inclusion strategy would be able to share practical lessons learned with Arab countries to enhance the knowledge and skills of their FI secretariats through peer learning events tapping on AMF FITF platform and AFI working groups. The TA provided through this project will tap on the bank's international experience and bring industry-leading knowledge to CBJ and key project partners.

## **B. Technical Analysis**

69. The project will promote financial inclusion and digital financial services by supporting the Jordanian government in implementing Jordan's National Financial Inclusion Strategy (NFIS) through (i) operationalizing the Financial Inclusion Implementation unit (Secretariat) at the CBJ; (ii) developing a country-specific program of peer-learning and knowledge sharing; (iii) establishing regulatory sandbox to facilitate the development and adoption of innovative financial technology.

70. By operationalizing the Financial Inclusion Secretariat, the CBJ will be able to facilitate and push the implementation of the NFIS, thereby leading to the completion of action plans and financial inclusion agendas. This will promote financial inclusion by completing strategically important financial inclusion activities, and will enable stakeholders to reach marginalized, rural and underserved populations.

71. Developing peer-learning and knowledge sharing will help the CBJ develop strategically important programs and technical know-how, particularly in the realm of digital financial services, that will better assist, guide and enable stakeholders to design customized and tailored products and services, targeted towards underserved and excluded adults.

72. Establishing a regulatory sandbox will enable the ability for FinTech companies to pilot innovations and for regulators to better understand FinTech implications on policy. This will help expand access to financial services through digital finance and networks, particularly to underserved and excluded adults, which ensuring a safe and conducive environment for consumers. This enables new technologies to reach underserved populations, while maintaining trust in the financial system.

### **C. Financial Management**

73. The World Bank updated the assessment of the financial management systems within CBJ, being the proposed implementing agency, during the preparation of the on-going “Micro, Small, and Medium Enterprise Development for Inclusive Growth” Project. The updated assessment concluded that the proposed financial management arrangements will satisfy the requirements under the World Bank Policy: Investment Project Financing.

74. The proposed project will mainly finance activities related to TA, and capacity building, through the selection of consultants, and supply of software. These are basic activities and therefore, the proposed project is expected to follow same financial management and disbursement arrangements of the on-going project; including: (i) a qualified Financial Officer will handle the FM and disbursement functions; (ii) a Designated Account (DA) will be open for the project to receive the Grant funds; (iii) CBJ accounting system will be used to capture the project’s financial transactions while excel sheets will be used to generate the quarterly Interim Unaudited Financial Reports (IFRs); (iv) Project will follow CBJ internal controls over disbursements; and (v) an independent external audit firm will be hired to audit annually the project’s annual financial statements.

### **D. Procurement**

75. The procurement capacity assessment was conducted and rated the procurement risk to be Moderate. The implementing agency CBJ general assessment determined that established procurement of this institution follows the core procurement principles as defined by the World Bank.

76. The project will finance mainly TA activities through selection of consultants and supply of software. The applicable Procurement regulation for the Project is the WBG new procurement framework (NPF), effective since July 2016. All goods, non-consulting services and consulting services required for the Project and to be financed out of the proceeds of the Grant 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 April 3, 2017. For each contract to be financed by the fund, the procurement methods or consultant selection methods, estimated costs, prior review requirements, and time frame are agreed between the CBJ and the World Bank project team in the Procurement Plan (PP). The PP will be updated at least annually, or as needed to reflect the actual project implementation needs and improvements in institutional capacity. Additionally, 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 and as of July 1, 2016 shall be applicable for the project; and the provisions stipulated in the Legal Agreement.

77. The Central Bank of Jordan (CBJ) is an autonomous corporate body and continues to exist as a public entity fully owned by the Government and carry out all its functions in accordance with the provisions of the Central Bank of Jordan Law (CBJL) No. 23 of the year 1971 (and its amendments). The CBJ procurement bylaw no. 19/1999 sets the responsibilities and the powers of the board of directors, governor, procurement committee and procurement division regarding the procurement process. The Regulations are detailed enough with all the decision making process stages and there are implementation regulations and a procurement manual. There is a procurement committee which is composed of five senior employees and takes over the responsibility of procurement management with a coordination and cooperation with the procurement division in the Financial Department. In addition to that the implementation regulation no. 154/2003 dated March 25, 2003 sets the mechanism and the process of procurement division activities, which are accessible to the staff.

78. The Financial Department within CBJ is responsible for carrying out all procurement related activities to headquarters and all other branches. The financial department has a workforce of around 18 employees working on procurement, most of whom are trained procurement officers with a minimum bachelor's degree in administration/accounting/finance. There is a manual documented and disseminated on the CBJ's internal website. There is a job description for all positions in procurement division that sets the duties, responsibilities and the required qualifications and skills for these positions. The staff have a good experience in the World Bank's procurement specifically in the selection of individual consultant and procurement of simplified Goods such as supply of computers, software and equipment.

79. **Procurement activities.** The project will finance the following activities : (i) Assessing and Improve Existing Data Infrastructure; (ii) Establishing RegTech Solutions for Secretariat Functions; (iii) Developing a country-specific program of peer-learning and knowledge sharing; (iv) Establishing regulatory sandbox to facilitate the development and adoption of innovative financial technology, and; (v) Building Capacity of Secretariat. The procurement methods will be as follows:

- Goods and non-consulting services: The project is expected to purchase software, and small goods with the following methods; (i) a Request for quotations; (ii) Direct selection will be used.
- Consulting Services: The project is expected to use request for proposals if any with the following methods (ii) Quality Cost-Based Selection (QCBS), (ii) Fixed Budget-based Selection (FBS); (iii) Least Cost-based Selection (LCS); (iv) Consultants' Qualification-based Selection (CQS); (v) Direct Selection; and (vi) Selection of Individual Consultants. The ToRs for the TA contracts were prepared to ensure readiness for implementation. Procurement packages planned during the first 18 months of project effectiveness are reflected in Annex3.

## **E. Social and Environmental Safeguards**

80. The proposed project is a Category C, no adverse environmental impacts are envisaged. The project will not finance any physical or civil works. Thus, the World Bank OP 4.01 on Environmental Assessment does not apply. If a need arises during implementation for the financing of goods or any civil works, the World Bank may reassess the application of OP 4.01 and require further environmental assessment.

81. The World Bank's OP 4.12 policy on Involuntary Resettlement does not apply. The project will not entail any investments that will trigger the policy since the project components are focused on client capacity building, enhancing consumer protection regulation, strengthening of the credit guarantee scheme, and improving the regulatory framework for micro finance institutions. This project does not include civil works, relocation of populations, impacts on livelihoods nor restriction of access to resources. Social impacts are likely to be positive. Project activities of TA, capacity building, and study tours will enhance individuals and institutional reforms will support small private sector entities.

#### **F. World Bank Grievance Redress**

82. Communities and individuals who believe that they are adversely affected by a World Bank Group WBG supported project may submit complaints to existing project-level grievance redress mechanisms or the WBG'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 WBG's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WBG 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 GRS, please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org).

ANNEX 1  
**RESULTS FRAMEWORK AND MONITORING**

<b>PROJECT DEVELOPMENT OBJECTIVE:</b> The proposed project development objective (PDO) is to promote financial inclusion and digital financial services by supporting the implementation of Jordan's National Financial Inclusion Strategy (NFIS).										
PDO Level Results Indicators	Core	Unit of Measure	Baseline	Cumulative Target Values				Frequency	Data Source/ Methodology	Responsibility for Data Collection
				YR 1	YR 2	YR 3	YR 4			
The Financial Inclusion Monitoring and Evaluation (M&E) system is adopted and operationalized*		Yes/No	No	No	No	Yes	Yes	Semi-Annual	CBJ	CBJ
% of adults owning a transaction account*	X	percentage	33.1	33.1	34	36	36.6	Semi-Annual	CBJ	CBJ
% of female adults owning a transaction account	x	percentage	27.2	27.2	28	29	30	Semi-Annual	CBJ	CBJ
NFIS technical action plans in digital finance and data are adopted		Yes/No	No	No	No	Yes	Yes	Semi-Annual	CBJ	CBJ
A Regulatory Sandbox is established and launched		Yes/No	No	No	No	Yes	Yes	Semi-Annual	CBJ	CBJ
INTERMEDIATE RESULTS										
Component I: Operationalizing the Financial Inclusion Implementation Unit at CBJ										
Secretariat policy and M&E toolkit delivered	<input type="checkbox"/>	Yes/No	No	Yes	Yes	Yes	Yes	Semi-Annual	CBJ	CBJ
Number of surveys / data collection templates designed / improved and endorsed*	<input type="checkbox"/>	Number	0	0	1	2	3	Semi-Annual	CBJ	CBJ
Geospatial mapping conducted and disseminated	<input type="checkbox"/>	Yes/No	No	No	No	Yes	Yes	Semi-Annual	CBJ	CBJ
Development of automated data solution for supply side data	<input type="checkbox"/>	Yes/No	No	No	No	No	Yes	Semi-Annual	CBJ	CBJ
Component II: Developing a country-specific program of peer-learning and knowledge sharing										
Number of trainings and workshops delivered	<input type="checkbox"/>	Number	0	0	1	3	6	Semi-Annual	CBJ	CBJ
Number of Staff trained*		Number	0	2	4	8	12	Semi-Annual		
Number of study tours conducted	<input type="checkbox"/>	Number	0	0	0	1	2	Semi-Annual	CBJ	CBJ
Component III: Establishing regulatory sandbox to facilitate the development and adoption of innovative financial technology										
Framework for regulatory sandbox and accelerator developed and endorsed*	<input type="checkbox"/>	Yes/No	No	No	Yes	Yes	Yes	Semi-Annual	CBJ	CBJ
Number of Firms approved by the Regulatory Sandbox		Number	0	0	0	0	3	Semi-Annual	CBJ	CBJ
Number of FinTech Pilots financed	<input type="checkbox"/>	Number	0	0	0	0	2	Semi-Annual	CBJ	CBJ

\*These indicators are directly aligned with the recommended and SC-approved set of 19 justified pillar level indicators, as per the assignment dated October 27, 2014 "Recommendation of Justified Pillar-Level Indicators under the 'Enhanced Status Quo' Results Framework for the MENA Transition Fund – Revised".

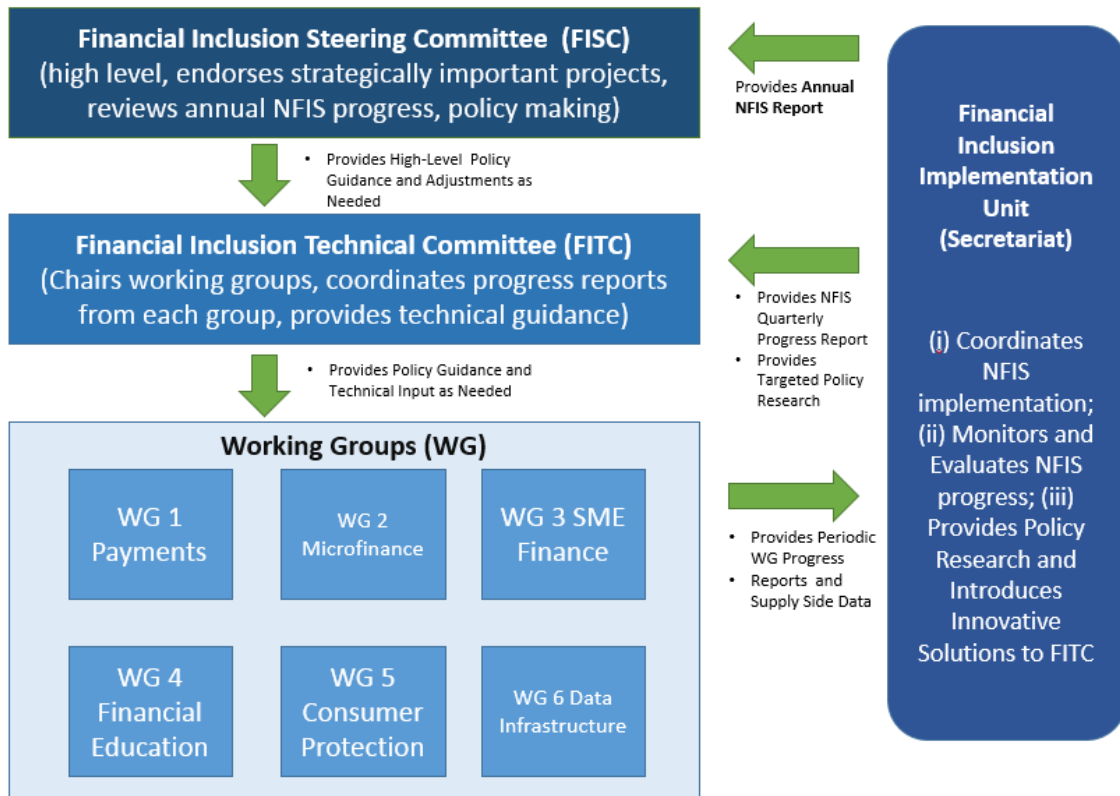
**ANNEX 2**  
**DETAILED PROJECT DESCRIPTION**

1. The proposed project comprises of three main components: (i) Operationalizing the Financial Inclusion Implementation Unit at CBJ; (ii) Developing a country-specific program of peer-learning and knowledge sharing; and (iii) Establishing regulatory sandbox to facilitate the development and adoption of innovative financial technology. The total cost of the project is US\$ 1.05 million.

**Component 1: Operationalizing the Financial Inclusion Implementation Unit at CBJ (US\$ 275,000).**

2. The CBJ is planning to launch an ambitious National Financial Inclusion Strategy (NFIS) which builds off of its Maya commitments, and aims to reduce financial exclusion in Jordan. Currently, GIZ extends support to the Secretariat, including a resident advisor who assists in designing the NFIS and identifying national targets to be included in the NFIS results framework. Once the NFIS is launched, there is a need to operationalize a comprehensive M&E system for financial inclusion to track progress, identify obstacles, and establish an evidence base for what works in expanding access to financial services for individuals and SMEs. This will ensure effective financial inclusion strategy development, policymaking, regulation, and supervision.

**NFIS Coordination Structure and Feedback Loop**



3. A comprehensive M&E system includes: (i) tracking the national Financial inclusion targets (as identified in the NFIS); (ii) a comprehensive Monitoring framework which tracks

various levels of indicators (at the action / activity, outcome and national level) beyond the NFIS identified targets; (iii) usage of robust data infrastructure; and (iv) evaluation and analytical activities.

4. The CBJ faces some capacity constraints to set up and implement the comprehensive M&E system needed for NFIS tracking. This includes: (i) an understaffed Secretariat; (ii) need for training in the approach to operationalize an efficient comprehensive M&E system; (iii) a gap in data infrastructure (the current demand side survey is not reoccurring, and the process of collecting the supply side data will be burdensome; (iv) need for optimal survey solutions and indicators; (v) lack of automated process to collect supply side data indicators from various data sources and institutions; (vi) lack of geospatial data and access point through mapping; and (vii) knowledge for conducting rigorous evaluation for policy making<sup>21</sup>.

5. The CBJ would benefit from knowledge sharing on trends and approaches currently used to fully implement a comprehensive M&E framework. Effective financial inclusion strategy development, policymaking, regulation, and supervision requires a comprehensive monitoring and evaluation (M&E) system to track progress, identify obstacles, and establish an evidence base for what works in expanding access to financial services for individuals and SMEs.

6. The CBJ faces some capacity constraints to set up and implement both the Secretariat and the M&E framework for NFIS tracking. There is a clear conceptual understanding by the CBJ of the M&E framework and the role of the Secretariat, however the Secretariat is currently understaffed, and framing the requirements and roles for a comprehensive M&E framework is needed. The CBJ will need to provide and develop proper frameworks and structures to ensure data collection and analysis improvements, a comprehensive M&E structure, as well as proper NFIS tracking systems

7. The current data infrastructure lacks some financial inclusion indicators and surveys. With support of GIZ, the Secretariat is developing and implementing three separate surveys which will inform the National Financial Inclusion Strategy and action planning. First, the Secretariat has contracted a firm to implement a large-scale household financial inclusion survey (similar to Finscope). The Secretariat is also implementing two supply side research initiatives; a market analysis and a financial inclusion supply side data collection template (with strategically important financial inclusion indicators included). However, these surveys are not reoccurring, and the process of collecting the supply side data will be burdensome on the Secretariat with its limited staff capacity. Further scoping is required to identify the optimal survey solution and indicators to establish recurring demand side data collection. In addition, identifying solutions to establish an automated process to collect the supply side data indicators from various data sources and institutions, particularly those outside the Secretariat, will increase efficiency. Lastly, the CBJ can benefit by integrating the collection and analysis of geospatial data as part the M&E functions of the Secretariat. The geospatial data can track the expansion of access point through mapping.

8. The CBJ requires capacity building to conduct rigorous evaluations. Many policy reforms are often not evaluated in their effectiveness prior to national rollout, and their impacts and outcomes are often unknown. Rigorous evaluation methods and better empirical evidence may be

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<sup>21</sup> Many policy reforms are often not evaluated in their effectiveness prior to national rollout, and their impacts and outcomes are often unknown. Rigorous evaluation methods and better empirical evidence may be useful to inform key policies that develop as part of the NFIS action planning.



useful to inform key policies that develop as part of the NFIS action planning. Helping the CBJ build capacity to conduct such evaluations can help shape and align policies with NFIS priority goals.

9. This component aims to support the implementation of the NFIS by contributing to a well-functioning NFIS Secretariat, operationalizing a comprehensive M&E system and improving existing data infrastructure. This consists of three sub-components:

10. **Sub-component 1.1 – Build the Capacity of the Secretariat through Training and Workshops:** This sub-component provides knowledge sharing and support based on international experiences to set and provide a foundation for the CBJ to better design and operationalize the M&E system. Workshops and training will be provided to assist the CBJ in the following areas: (i) approaches to developing and operationalizing an M&E framework (including training on current M&E toolkits, strategies to develop the full framework, templates and reporting systems); (ii) conducting impact evaluations; (iii) collecting and analyzing geospatial data; (iv) and ad hoc TA to assist in developing policy research and reporting. The workshops will describe best practices, linkages with broader theories of change (which includes the approach to identifying and narrowing relevant indicators and appropriately tracking and highlighting progress on activities, outcomes and high level improvements), strategies to collect and integrate multiple layers of data into one comprehensive framework that can be used for policy making, and will showcase and train staff on available toolkits that can be used as a basis for the development of CBJ policy tools and feedback loops. This data will feed into tracking frameworks that will highlight progress and identify bottlenecks or stalled actions, so that relevant stakeholders and committees can provide technical guidance to smooth and further push action implementation. TA will help build capacity and apply the toolkits and knowledge, and integrate the practices into the functions of the Secretariat.

This sub-component will complement the activities of GIZ, who plan to support the CBJ in developing NFIS national targets and indicators.

11. **Sub-component 1.2 – Assess and Improve Existing Data Infrastructure:** This sub-component will provide opportunities to assess and develop data solutions to ensure sustainability and to enhance data infrastructure for longer term Secretariat tracking, with a particular focus in developing country-owned reoccurring data (both on the demand and supply) through: (i) integrating relevant indicators and modules into pre-existing survey instruments (in particular by the Department of Statistics<sup>22</sup>); (ii) enhancing supply side data collection mechanisms (including through enhancing data provided by the private sector); and (iii) integrate, collect and analyze geospatial data, and disseminate maps.

12. **Sub-component 1.3 – Establish RegTech Solutions for Secretariat Functions:** This sub-component will support hiring a specialized firm to build automated solutions to NFIS M&E tracking. This will include conducting a targeted scoping to identify suitable solutions, design

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<sup>22</sup> Jordan's National Bureau of statistics.

specifications and establish solutions. Solutions may include, for instance, an online data portal to aid and organize the collection and analysis of supply side data from various institutions<sup>23</sup>.

13. Key outputs envisioned for this sub-component include (i) an operational, comprehensive M&E system; (ii) the delivery of multiple trainings and workshops to build capacity; (iii) the delivery of a Secretariat policy toolkit (including a templated M&E tracker to track the performance and completion of NFIS activities); (iv) facilitation of M&E reports, implementation reports and evaluation studies; (v) the integration of new indicators into already available surveys or supervisory templates; (vi) the delivery and dissemination of geospatial mapping; (vii) the development of a Secretariat portal to collect supply side data from various institutions.

This sub-component will be conducted in close coordination with GIZ.

## **Component 2: Developing a country-specific program of peer-learning and knowledge sharing (US\$225,000)**

14. The CBJ requires capacity building to develop technical expertise to craft relevant action plans and provide technical research to shape government interventions. There is need for knowledge sharing for digital financial inclusion and policy research for implementation. In particular, the CBJ Secretariat faces capacity constraints with respect to emerging digital innovations and their effect on financial inclusion and access. Working groups and technical committees also require expertise and targeted knowledge and workshops for developing and implementing NFIS action plans. In addition, study tours and experiential learning will assist the CBJ in fully operationalizing their Secretariat and understanding the implementation functions and structures from other successful country experiences.

15. The objective of this component is to support building the capacity of the NFSC, NFTC, Working Groups, and Secretariat through knowledge sharing, technical workshops and study tours. This component comprises of three sub-components:

16. **Sub-component 2.1: The Jordanian AFI membership during project duration will be funded under this sub-component** and will engage Jordan in the following member services, which are designed to address the national objectives of policymakers and regulators and will be modified to also address the national objectives of Jordan:

(i) Working Groups: These groups of 15-40 member institutions focus on specific policy areas, including: Digital Financial Services; Consumer Protection and Market Conduct; Financial Inclusion Strategy; Financial Inclusion Data; and SME Finance. The working groups are chaired by members and have led to important reforms in many of the countries involved and facilitated the production of policy guidelines and tools that have practical relevance.

(ii) Participation in AFI's Global Policy Forum (GPF): The GPF is regarded as the leading global knowledge exchange event on financial inclusion policymaking. Most sessions are hosted by members who share 'on the ground' experiences.

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<sup>23</sup> The cost depends on final specifications and needs of CBJ identified during the scoping mission with IT Expert. if costs can come down, then it will be re-allocated to component 1.2 as integrating new survey modules can cost up to \$120,000.

(iii) Peer Learning Initiative with Standard Setting Bodies (SSBs): This will provide opportunities for Jordan to participate in shaping and influencing the global agenda through knowledge sharing with SSBs, which can have a significant impact on how the global financial system helps or hinders financial inclusion.

**17. Sub-component 2.2: This sub-component will organize technical workshops on priority areas that would support Jordan in meeting its Maya and NFIS commitments.** The CBJ and relevant stakeholders will benefit from technical workshops and trainings, to aid in action plan development, implementation and policy guidance. There is an identified need for a particular focus on digital finance. Planned workshops may include: Regulatory Sandboxes and FinTech Innovators (to complement component 3 below); Development of Digital Financial Services (DFS); Alternative Credit Scoring, Alternative Complain Handling, Distributive ledger Technologies, Mobile Payments & Agent Networks, Development of Digital Financial Capability Programs and Awareness Campaigns; Leveraging data for product design and delivery; Block Chain technologies; eKYC; and Proportionality for DFS.

**18. Sub-component 2.3: This sub-component will plan specific study tours for the CBJ in order to enhance their capacity and NFIS supervisory role.** This sub-component will directly complement the efforts of component 1 and 3 (below), and study tours can be facilitated in key areas. First, a study tour can be conducted to support the sharing of experience learned on regulatory sandboxes<sup>1</sup>, accelerators and hubs from across the world. This sub-component will cover the expenses related to study tours, training and workshops. Second, a study tour to support understanding successfully operational Secretariats, and its various NFIS implementation functions.

19. This subcomponent will support workshops to build capacity; (ii) the delivery of targeted trainings for the Working Groups; (iii) the conduction of study tours.

20. CBJ will endorse a selection process among Financial Inclusion Secretary, FITF and FISC for

participation in the study tours and AFI events to ensure efficient targeting of participants who have the ability to spread knowledge and generate systematic change.

**Box 1: Recent Case Studies of Jordanian FinTech Innovations that have faced Regulatory Constraints**

e-Cheque is a startup innovation company which aims to initiate new electronic instruments (e-Cheques) that offer, issue and endorse cheques through the internet and mobile banking systems. The cheque is then exchanged and cleared through the centralized system. There are many advantages of e-cheques including decreasing the number of counterfeit cheques and increasing efficiency and effectiveness of issuing, exchanging and processing cheques. However, the current regulatory environment made the e-Cheque company unable to test or experiment their innovation. QR Code is a startup innovation company to establish a QR code (a machine readable code that will allow the reading of information through smart phones) for banks to print on cheques (like the MICR line) which ensures an additional security mark to reduce fraud. However, the QR code company is unable to test or experiment with this innovation, and there are no clear regulatory environment to regulate this company or understand its policy implications. Solfeh is a startup innovation company with an online micro lending platform that allows users to receive short term loans. The solfeh.com system offers online credit scoring that allows companies to evaluate borrowers for a loan, enables borrowers to choose the amount and repayment schedule, and allows for online loan applications through its website. The borrowers can receive money from authorized money changers when the loan is approved and repayment can be deducted directly from their salary. However, Solfeh was unable to register their company (due to capital and licensing requirements) and do not fit under any regulatory umbrella that apply to their business.

**Source:** Central Bank of Jordan

**Component 3: Establishing regulatory sandbox to facilitate the development and adoption of innovative financial technology (US\$ 550,000).**

21. The current regulatory environment in Jordan constrains FinTech companies in testing and innovating new financial technologies. The licensing and capital requirements in Jordan make it difficult for smaller non-banks (e.g. start-up FinTech companies) to receive licenses to pilot and rollout their innovative technologies. In addition, many new FinTech innovations or entities may not fall under the current regulatory sphere to be licensed or approved to test their technologies [Box 1 details recent case studies of Jordanian FinTech firms that faced regulatory constraints where e-cheque and QR code seek to do new things not allowed by the current regulations because of the perceived risks]. Other regulatory factors may also reduce ability to innovate, for instance, AML-CFT regulations that restrict developments in eKYC or innovative and alternative uses of big data. In response to market needs, CBJ is planning to develop a regulatory sandbox to improve proportionality and foster innovation in Jordan.

22. For Jordan, a “regulatory sandbox” will be a safe space where businesses can test innovative products without immediately incurring normal regulatory consequences<sup>24</sup>. In short, an authorized sandbox will allow FinTech firms to test their ideas. A regulatory sandbox does not need to be limited to national firms only, but can also be open to regional firms with open policies for partnerships and experimentation for FinTech innovation.

23. The CBJ in a recent policy note on FinTech and Regulation prepared by CBJ (see Annex 3) has already developed an evaluation criterion for the sandbox, based on international examples and in consultation with the Financial Conduct Authority (FCA) in UK, Bank Negara Malaysia, and Monetary Authority of Singapore (MAS). The CBJ plans to evaluate any submitted request according to seven predefined criteria:

- Using Technology in an innovative way: the applicant should prove that they are using technology in an innovative way, an application that lacks innovation will be rejected;
- Adding value to the users or the industry;
- Applicable in Jordan, applications for innovation that cannot be applied in Jordan at a broader scale will be rejected;
- The applicants should provide the sandbox with clearly-defined test scenarios with expected outcomes;
- The applicants should be aware of the limits and boundaries of their innovation, and include them within the application in a clearly defined way;
- The applicants should be aware of the risks associated with his innovation, and accordingly include the assessment of the risks and controls to manage and mitigate them;
- The applicant should put in an exit plan from the sandbox, along with a business plan for launching in the event the pilot case is successful and is an accepted innovation for deployment on a broader scale.

24. In addition, the Ahli Bank of Jordan is planning to develop a FinTech Accelerator. Ahli Jordan Bank has already begun developing a FinTech Accelerator by making available a shared, open API infrastructure. The accelerator offers the opportunity for applicants to use their open-API platform to develop new FinTech innovations. These innovations and applications can be encompassed under CBJ’s envisioned regulatory sandbox, however, in order to keep a level playing field, the envisioned sandbox will remain non-exclusive.

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<sup>24</sup> Central Bank of Jordan, “Fintech and Regulatory Report” 2017.

25. In addition, the CBJ wants to encourage innovation with a particular focus on block chain technologies, leveraging of big data, distributed ledgers and eKYC. In 2016, the authorities began to rollout Jordan’s new Smart ID cards<sup>25</sup> (which contain a chip technology) and targeted five million by end of 2016, and full rollout by end of 2017. The IDs contain a series of applications, including health insurance and driving licenses. Digital IDs can be leveraged to enable eKYC<sup>26</sup> as they can be accessed and validated by financial institutions remotely. This enhances financial inclusion and make it easier (particularly for women) to access financial services.<sup>27</sup> In this

respect, the regulatory sandbox will be able to identify implications with regards to developing strong financial consumer protection measures in light of new innovations. Such FinTech innovations will also be an effective and inclusive tool to financially include refugees. For instance, distributed ledgers and block chain technologies can help build an up-to-date database in which refugees may gain clearer, authorized forms of identification, thereby meeting eligibility requirements of different products and services. This contributes to Jordan’s broader NFIS agenda and national goals. The sandbox will foster innovation to both understand the implications of such

**Box 2: The Differences in FinTech Innovation Facilitators\***

**Regulatory Sandbox:** Creates a framework for experimentation and innovation in a controlled environment to promote the growth and competitiveness of the (innovative) financial sector in favor of consumers. Sandboxes often include (i) a platform for structured communication between the regulator and the entity; (ii) the testing of innovations monitored under a controlled environment; and (iii) a regulator playing an active role in helping the entity or entities in question to set up their business in compliance with the legal and regulatory framework.

**FinTech Innovation Hubs:** Typically, when the regulator provides advisory services to either a regulated or unregulated FinTech firm.

**FinTech Accelerators:** Typically, when a private or public entity or initiative supports the development and growth of FinTech providers (for example, an entity engages in a partnership with an institution to share a FinTech infrastructure like an API platform).

**FinTech Incubators:** The combination, for instance, of the featured of a regulatory sandbox linked with an innovation hub, and designed to stimulate financial innovation benefiting consumers.

*Source:* Consultative Group to Assist the Poor (CGAP). “Relevance of Leading Edge Issues for Low-Income Countries”. 2017.

<sup>25</sup> The new NID Cards with smart chips that contain biometric verification will allow consumers to remotely onboard for new services, in addition to benefits for the regulator to enhance the financial system integrity and better customers due diligence and more precise official documentation and eliminating fraud.

<sup>26</sup> E-KYC is the process of verifying KYC regulations electronically, through use of Digital Identity Systems that collect verified data through distributed ledger technology. Lack of a robust, verifiable ID system for KYC continues to exclude financially underserved populations

<sup>27</sup> For instance, the use of e-KYC can increase access to finance for women by enabling them to gain access to financial services by establishing economic credentials for adults with limited identification and negotiating gender bias through digital ID platforms (particularly in areas where physical presence of male is required).

FinTech innovations in order to enable similar products and services, while also gaining a better understanding of risks involved, required consumer protections and AML/CFT requirements.

26. This component aims to support the CBJ in contributing to enhancing efficiency of the financial system and financial inclusion by enabling financial technology innovations through the establishment of a FinTech regulatory sandbox. The regulatory sandbox will enable regional FinTech innovations, including RegTech solutions (particularly with big data, DLTs and eKYC) that enhance financial inclusion.

27. **Sub-component 3.1 – Establishing the Regulatory Sandbox:** This sub-component will support the development and operationalizing of the regulatory sandbox with the goal of enhancing financial inclusion and improving safety and efficiency, and provide TA to establish the internal processes, procedures and frameworks. This sub-component includes the following activities:

(i) **An assessment to structure the regulatory sandbox:** This assessment will cover identifying types of shared infrastructures that can be supported by the CBJ (like open APIs, cloud-based infrastructures, distributed ledger technologies, either by CBJ on its own or in partnerships with consortiums, shared country infrastructures, etc.), developmental priority areas (like simplify customer due diligence processes, lower cost of domestic and international remittances and enhance access to payment and financial services) and other strategically important specifications including management roles, staffing needs and responsibilities (including for selecting pilots).

(ii) **TA to the CBJ in drafting and developing a high level framework:** This includes issuing the guidelines for sandbox applications, reviewing and approving pilots, setting rules for applicants to conduct pilots, establishing a monitoring system with key performance indicators to track progress and evaluating outcomes.

(iii) **TA and capacity building to support and develop CBJ core team:** This includes covering the cost of hiring staff and consultants and providing training to the team to help operationalize and manage the regulatory sandbox.

28. **Sub-component 3.2 – Financing selected pilots:** This sub-component will finance pilots in key developmental areas that promote innovations in digital finance or focus on solutions to critical issues (like solutions towards refugees). In addition to financing pilots under the regulatory sandbox, CBJ can also finance stand-alone FinTech (including for RegTech). In addition, support will be provided to set up an inter-agency panel to manage pilot selection upon a pre-defined criteria and process. In addition, other sources of funding can be leveraged to support pilots. Providing partial or full financing of pilots can help incentivize applications to the regulatory sandbox, or can incentivize pilots for particular, defined developmental areas. The financing will help broaden or scale pilots to better understand their effect and policy implications prior to greater implementation.

29. Key outputs envisioned for this sub-component include (i) the delivery of a regulatory framework for the sandbox; and (ii) financing for selected FinTech pilots.

## ANNEX 3

### IMPLEMENTATION ARRANGEMENTS

#### A. IMPLEMENTING AGENCY

1. The CBJ is the implementing agency for the Project, which will be responsible for coordinating and managing the overall project. The CBJ was selected as the implementing agency, being the entity responsible for leading the formulation and implementation of the national financial inclusion strategy in Jordan. The MENA TA Facility has been investing in the capacity building of CBJ and experience over the past year has proven the competence of CBJ to manage and implement projects. The effective implementation of the MSME Development for the Inclusive Growth Project, confirms the World Bank's previous assessment of CBJ, which showed that it has adequate capacity to implement, coordinate and manage the project. Arrangements will be put in place to ensure adequate project supervision, covering fiduciary and safeguards aspects, with at least semi-annual supervision missions. The supervision team will draw on expertise from the World Bank as well as external experts, where necessary. Meetings with other concerned stakeholders engaged in similar activities, including donor agencies, will be undertaken during supervision missions and three key team members located in Amman.

2. The World Bank will support the implementation through supporting CBJ as identified under project description. Specifically, the World Bank Team will: (i) advise/support the authorities in their effort to conduct training and organize Workshops referred to under sub-component 1.1, in terms of developing the material, and setting the agenda and delivering the training; (ii) advise Financial inclusion unit on integrating relevant indicators and modules into pre-existing survey instruments (in particular by the Department of Statistics) and integrating, collecting and analyzing geospatial data, and disseminating maps; (iii) advise CBJ in drafting TOR to hire a specialized firm to build automated solutions to NFIS M&E tracking; (iv) organize technical workshops on priority areas that would support Jordan in meeting its Maya and NFIS commitments; (v) facilitate specific study tours for the CBJ in order to enhance their capacity and NFIS supervisory role in terms of setting the agenda and identifying the best destinations, while the grant will cover travel and accommodation costs. Under Component 3: The World Bank will provide TA and support to identify relevant technical consultants in order to: (i) conduct an assessment to design the specifications for the regulatory sandbox; (ii) draft and develop a high level framework including guidelines for sandbox applications, reviewing and approving pilots, setting rules for applicants, etc; (iii) provide capacity building to support to key staff to operationalize the sandbox; and (iv) help the CBJ establish a monitoring system with key performance indicators to track progress and evaluating outcomes.

#### B. FINANCIAL MANAGEMENT

3. The Project team managing the on-going "MSME Development for Inclusive Growth Project" will manage this project. The team includes a Financial Officer who has built a good knowledge on the World Bank financial management and disbursement guidelines while working on the ongoing "MSME Development for Inclusive Growth Project".

4. *Project FM risk.* The overall FM risk is "Moderate". With mitigation measures in place, the project will have acceptable project FM arrangements and its FM risk rating will be "Low".

Giving the satisfactory capacity of CBJ and the simple nature of the Project, the FM risk is assessed as “Moderate” mainly due to: (i) despite that the Financial Officer built a good understanding of World Bank financial management and disbursement guidelines, some close support and training are still needed; (ii) Grant funds needed for the project may not be available in a timely manner, and (iii) the current CBJ accounting system is not capable of generating the quarterly IFRs as per World Bank guidelines.

5. The following measures are to be taken to mitigate FM-related risks: (i) the project team includes a qualified Financial Officer; (ii) the FM chapter of the Operations Manual, which was prepared for the ongoing “MSME Development and Inclusive Project”, will be used for this operation; (iii) the World Bank will continue to closely support the project team; and (iv) CBJ accounting system will be used to capture the project’s financial transactions and generate the financial statements for the quarterly IFRs reports but few unavailable statements by the system will be generated using excel sheets.

6. *Budgeting and funds flow.* The budgetary process at CBJ is found to be satisfactory. The process is conducted by the Administrative and Finance Department. This department has satisfactory planning and budgeting capacity, which enables CBJ to prepare sound plans and budgets. The budget is first prepared at the departments’ level then grouped and discussed with the Administrative and Finance Department before being presenting to the Board for approval. The Project disbursement plan will be prepared by the banking supervision department and it will be updated periodically and will be used to reflect the variances upon IFRs submission. A US Dollar Designated Account (DA) will be opened at the CBJ. Deposits into and payments from the DA will be made in accordance with the disbursement letter. CBJ will prepare withdrawal applications with the related supporting documents, signed by the designated signatories.

7. *Accounting and reporting.* The CBJ maintains acceptable financial management system “Oracle-system”, which is centralized at the Central Accounting Division. The Project accounting system will be integrated into CBJ accounting system and for this purpose, the needed accounts, within its ledger, will be opened to reflect the project activities and have in place a control balance to be used for reconciliation purposes. The project will produce quarterly consolidated Interim Un-audited Financial Reports (IFRs). The quarterly consolidated IFRs will be submitted by the banking supervision department to the World Bank within 45 days after the end of concerned quarter. The IFRs will include: (i) a statement on sources and uses of funds for the reporting period and cumulative; (ii) a detailed statement of commitments, and (iii) a reconciliation statement of the DA account. The system will be used to generate some of the statements required as part of the quarterly IFRs but the remaining statements unavailable by the system will be generated using Excel.

8. *Internal controls.* The CBJ organization consists of 14 departments CBJ and governed by: (i) a Board of Directors; (ii) the Governor; and (iii) two Deputy Governors. The Project will be implemented under the general context of CBJ internal control policies and procedures. The CBJ follows the CBJ Law No.23 of 1971 and its amendments and the internal regulations bylaw. For the purpose of the ongoing “MSME Development for Inclusive Growth Project”, an Operation Manual was developed that reflects CBJ policies and procedures complemented by the Bank’s requirements for: (i) financial management guidelines with respect to financial reporting requirements, (ii) disbursement procedures, and (iii) external auditing of the Project’s accounts



by qualified acceptable audit firm. The financial management chapter of this Manual will be updated for this operation.

9. An independent external auditor will be appointed to annually audit the project's financial statements, in accordance to terms of reference (TORs) acceptable to the World Bank. The audit report and management letter will be submitted by CBJ to the World Bank within six months after the end of the audit period. The annual audit report of the Project accounts shall include a separate opinion of the project's internal controls. According to the World Bank Policy on Access to Information issued on July 1, 2010, the audit report with audited financial statements of the project will be made available to the public. CBJ is subject to statutory annual audits performed by an independent private audit firm; therefore, the CBJ will share its annual audited financial statements with the World Bank.

10. *CBJ disbursements.* The proceeds of the Grant will be disbursed in accordance with the World Bank's disbursements guidelines as outlined in the Disbursement Letter and in accordance with the World Bank Disbursement Guidelines for Projects. Transaction-based disbursement will be used under this project. Accordingly, requests for payments from the Grant will be initiated through the use of Withdrawal Applications (WAs) either for direct payments, reimbursements and replenishments to the DA. All WAs will include appropriate supporting documentation, including detailed Statement of Expenditures for reimbursements and replenishments to the DA. The category of Eligible Expenditures that may be financed out of the proceeds of the Grant and the percentage of expenditures to be financed for Eligible Expenditures will be spelled out in the Grant Agreement. A four months' grace period will be granted to allow the financing of any eligible expenditure incurred before the grant closing date.

11. *E-Disbursement.* The World Bank has introduced e-Disbursement for all projects in Jordan. Under e-Disbursement, all transactions will be conducted and associated supporting documents are scanned and transmitted online through the World Bank's Client connection system. The use of e-Disbursement functionality will streamline online payment processing to (i) avoid common mistakes in filling out WAs; (ii) reduce the time and cost of sending WAs to the World Bank; and (iii) expedite the World Bank processing of disbursement requests. Necessary supporting documents will be sent to the World Bank in connection with contract that is above the prior review threshold. The documentation supporting expenditures will be retained at the banking supervision department and will be readily accessible for review by the external auditors and World Bank supervision missions. All disbursements will be subject to the conditions of the Grant Agreement and disbursement procedures as will be defined in the Disbursement Letter.

## **C. PROCUREMENT ARRANGEMENTS**

12. Implementing agency: Central Bank of Jordan is the implementing agency of the project. The Central Bank of Jordan<sup>1</sup> (CBJ) is an autonomous corporate body and continue to exist as a public entity fully owned by the Government and carry out all its functions in accordance with the provisions of the Central Bank of Jordan Law (CBL) No. 23 of the year 1971 (and its amendments). The main functions of the CBJ, inter alia, are as follow:

- (i) Acting as a regulator and supervisor: CBJ regulates the credit to achieve the requirements of sustainable economic growth and monetary/financial stability. CBJ supervises Licensed Banks to ensure the soundness of their financial positions and the

protection of the rights of depositors and shareholders.

- (ii) Acting as a bank: CBJ acts as a banker and fiscal agent to the government and public entities. It Also acts as a banker to the Licensed banks and specialized credit institutions in Jordan.
- (iii) Carrying out any other functions and transactions normally performed by central banks, as well as any operations entrusted to it under CBJL, or any other law, or under any international agreement to which the Government is a party of.

13. The CBJ has amended its legal framework (in the year 2016) to reinforce the autonomy and independency of the bank and to strengthen its safeguards framework. key amendments that address safeguards concerns include the following:

- (i) Reinforcing the functional autonomy of the CBJ by explicitly indicating that its staff and members of its governance bodies shall perform their duties with full independency, without any influence or interference from any entity, including the government.
- (ii) Increasing the number of non-executive Board members from five to six. Decisions of the appointment, reappointment, or dismissal of such members shall be taken by the council of ministers.
- (iii) Strengthening the CBJ's financial autonomy by establishing its sole discretion to provide emergency liquidity assistance along with developing a comprehensive framework for this purpose.

14. **Procurement activities.** The project will finance the following activities:(i) Assess and Improve Existing Data Infrastructure;(ii) Establish RegTech Solutions for Secretariat Functions ; (iii) Developing a country-specific program of peer-learning and knowledge sharing; (iv) Establishing regulatory sandbox to facilitate the development and adoption of innovative financial technology and (v) Build Capacity of Secretariat.

15. **Procurement capacity assessment.**

- (i) Legal framework: CBJ is established as an autonomous corporate body and continue to exist as a public entity fully owned by the Government and carry out all its functions in accordance with the provisions of the Central Bank of Jordan Law (CBJL) No. 23 of the year 1971 (and its amendments) and is bound by public procurement and is subject to the review of an audit bureau). The CBJ procurement bylaw no. 19/1999 sets the responsibilities and the powers of the board of directors, governor, procurement committee and procurement division regarding the procurement process. The Regulations are detailed enough with all the decision making process stages and there are implementation regulations/ procurement manual. there is a procurement committee which is composed of five senior employees and takes over the responsibility of procurement management with a coordination and cooperation with the procurement division in the Financial Department. In addition to that the implementation regulation no. 154/2003 dated March 25, 2003 sets the mechanism and the process of procurement division activities, which are accessible to the staff. There is a manual documented and disseminated on the CBJ's internal website. There is a job description for all positions in procurement division that sets the duties,

responsibilities and the required qualifications and skills for these positions. The staff have a good experience in the World Bank's procurement specifically in the selection of individual consultant and procurement of simplified Goods such as supply of computers, software and equipment.

- (ii) Procurement Methods: The methods in procurement bylaw no.19/1999 amended according to the system no.77/2003 and system no.40/2015 are as per below thresholds:

**Procurement methods**

Goods	Direct Contract	For below 5000JD
	3 quotations	5000 up 20,000 JD
	Bidding	above 20,000JD
Consultancy	Direct contract	Mostly

**Decision authority**

Category	Decision	Contract amount
Goods	Assistant of Financial manager	Less than 5,000JD
	Financial manager	Up to 5,000JD
	The governor forms a procurement committee (4 senior members, representative internal auditor Dep., representative of audit bureau and chaired by financial manager	50,000 up to 50,000JD
Consultancy	The selection done through the HR department according their procedure.	

- (iii) Planning: According to CBJ procurement bylaw and the regulations article no. 18, the Procurement division in coordination with other departments plan annual CBJ requirements and needs for smooth running of its activities, noting that the board of directors approved the annual plan for procurement that its value exceeds 50k JD. There is a regular review for procurement plans in terms of cost and timing.
- (iv) Complaints: complaints should be presented to the procurement committee and formal answering should be send to the bidder only.
- (v) Audit: all the procurement process subjected to regular internal auditing from the audit department. Moreover, there is an observer from internal audit department in the procurement committee to make sure that the committee follows all the relevant procedures to deal with all bidding applications.

16. **The Applicable Procurement regulation for the Project is the WBG new procurement framework (NPF), effective since July 2016.** Even though this regulation is new, and despite limited procurement involved, initially it is anticipated that there may be a gradual learning curve. Additionally, 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 and as of July 1, 2016 shall be applicable for the project.

17. **The overall procurement risk rating is Moderate.** The overall procurement implementation risk of this Project, having very limited procurement activities, is Moderate. The

following measure is proposed to mitigate the risk rating to Moderate: (i) utilizing a procurement plan as a monitoring tool for processing timely activities; (ii) provide hand holding for the project team.

## Market Analysis Summary

18. **Consultants:** Mainly most of the planned activities are considering in building capacity and developing a country-specific program of peer-learning and knowledge sharing through conducting a number of workshop training, and tour study. Therefore, and due to the specific nature of the CBJ operations, the consultants (firms/IC) are very limited in number. They will be retired former CB staff, or consultant has a good previous experience with the CB activities. Mostly the hiring will be on single sourcing.

19. **Goods:** The required software has a good number of experienced vendors for such tasks. Any additional supply contracts are expected to be small contracts, as well as the consultancy contracts mostly for individual consultants, where both local and international capacity may be tapped as needed.

20. **Proposed Procurement Arrangements** will be envisaged as follows:

21. **Methods of Procurement.** Selection methods and arrangements:

a. *Goods and non-consulting services:* The Project is expected to purchase software, and small goods with the following methods; (i) a Request for quotations; (ii) Direct selection will be used.

b. *Consulting Services:* The Project is expected to use request for proposals if any with the following methods (ii) Quality Cost-Based Selection (QCBS), (ii) Fixed Budget-based Selection (FBS); (iii) Least Cost-based Selection (LCS); (iv) Consultants' Qualification-based Selection (CQS); (v) Direct Selection; and (vi) Selection of Individual Consultants.

22. **Prior review thresholds.** Based on the procurement assessment risk rating, the Project shall be subject to moderate risk prior review thresholds as defined under NPF. Therefore, all contracts, with exception of TORs, are expected to be post review. Hands on assistance will be provided by World Bank staff as needed.

23. **The procurement plan for the life of the Project will be developed by CBJ through the Systematic Tracking of Exchanges in Procurement (STEP).** It will define the market approach options, the selection methods and contractual arrangements, and determine the WBG's prior/post reviews. The initial procurement plan will be attached to the legal agreement. Packages shall be determined to process activities efficiently. The project team need to train in how to use STEP system.

24. **Frequency of Supervision.** The frequency of supervision mission and post procurement review is foreseen to be once a year. In post procurement review, a minimum sample of ten percent of contracts or at least one contract eligible for post review shall be covered.

## ANNEX 4

### FINTECH & REGTECH<sup>28</sup>

#### **What is FinTech?**

- FinTech – a contraction of “finance” and “technology” is the use of technology in the financial services industry resulting in the introduction of new and innovative products and services, primarily through software. It may also refer to technical innovation applied in a traditional financial services context or to innovative financial services offerings.
- At the same time however, FinTech disrupts and challenges the way conventional financial services and products are offered by granting access to untrodden markets through alternative services backed by technology.

#### **What is RegTech?**

- FinTech disruption postulates that disruption of finance will be accompanied by innovation in regulation of finance and ultimately the automation of regulation.
- RegTech means technologies that facilitate the delivery of regulatory requirements. RegTech can reduce a client’s regulatory and compliance costs, automate the certain compliance tasks and reduce risks.
- Governments are beginning to work with companies to identify ways to support the adoption of new technologies to facilitate the delivery of regulatory requirements.

#### **RegTech will include:**

- Active and productive two-way regulatory dialogue and regular feedback loops (COLLABORATION)
  - Standardized presentation of data (regional/global)
  - Automation of data collection
  - Open source compliance systems (encouraging FinTech participation)
- Compliance criteria built into protocols (removing human error)

#### **Why to Regulate FinTech in Jordan**

CBJ Considers Proportionality in Regulating FinTech: Balancing between the principles, risks and objectives.

#### **The Main Broad Goals of FinTech Regulation**

- Stability and Confidence
- Efficiency and competition
- Consumer protection

#### **Factors Impacting Our Regulations**

- A combination of various factors and elements relevant to any individual FinTech Company will determine how the regulations will impact its business
- The geographical location of the company, if it requires cross-countries regulations

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<sup>28</sup> Source: CBJ Secretariat

- Activities, practices, customers types and products and services offered by the fintech company will be impacted by the existing laws and regulations, activities permitted by the regulator, inter-regulator cooperation, licensing and registration requirements, compliance requirements, technical and financial requirement , disclosure and consumer protection requirements.

**FinTech landscape is broader than RegTech Landscape, in other words; RegTech is a part of FinTech.**

The main areas that witnessed FinTech Innovations in the previous years and considered to disrupt the conventional financial services are:

- Payments and Remittances
- Peer-To-Peer Lending
- Equity Crowd Funding
- Investment and Wealth Management
- Insurance
- Digital Currencies

While the main areas of FinTech innovations in the previous year’s yet considered to facilitate the delivery of regulatory requirements (RegTech) or enhancing compliance and or reducing risks are:

- e-KYC
- Big Data
- Robotic Advisors
- ADR
- Alternative Credit Scoring

**Examples of FinTech Products and Services**

<b>FinTech Products &amp; Services</b>	<b>Describe</b>	<b>Regulations</b>
<b>Peer to peer or marketplace lending platforms</b>	lending to individuals or businesses through online services that match lenders directly with borrowers	operation of lending platform may be regulated
<b>Roboadvice</b>	automated financial advice (computer based algorithms and decision trees)	may be subject to adviser registration/regulation
<b>Virtual currencies</b>	Bitcoin etc.	might constitute currencies if the trading in them is regulated; also raises AML issues
<b>On-line payment accounts</b>	accounts through which you can send money, make payments online, and receive money	may be regulated as non-bank payment institutions
<b>Payment initiation services</b>	service used to initiate a payment to another party	may be regulated as non-bank payment institutions

## Examples of New Technology Trends

The new technology	Regulators Actions
Computer Clouding	Regulators issue Computer Clouding Guidelines
APIs	Regulators issue APIs Guidelines
Outsourcing	Regulators issue Outsourcing Guidelines

## Examples of New Informational Technology

The new IT	Real Examples
<ul style="list-style-type: none"> <li>▪ Blockchain (Distributed Ledger)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Blockchain technology introduced high safety and efficiency innovation in real time payments and settlements where the back-office settles transactions and keeps track of money flows in real-time. And having transactions on distributed ledgers makes it almost impossible to be hacked.</li> <li>▪ Another example, the NASDAQ exchange will soon start using a blockchain-based system to record trades in privately held companies.</li> <li>▪ MAS Singapore, will soon launch its RTGS on Blockchain.</li> <li>▪ Another example, Estonia used blockchain for healthcare.</li> <li>▪ Banking Supervision can retrieve whatever financial data from any bank, any time, in real time without storing them.</li> <li>▪ Smart contracts for MFIs</li> </ul>
<ul style="list-style-type: none"> <li>▪ Big Data (Hadoop Big Data)</li> <li>▪ Hadoop is an open-source framework that allows to store and process big data in a distributed environment across clusters of computers using simple programming models. It is designed to scale up from single servers to thousands of machines, each offering local computation and storage.</li> <li>▪ <i>Big data</i> is a term for data sets that are so large or complex that traditional data processing application software is inadequate to deal with them. Challenges include capture, storage, analysis, data curation, search, sharing, transfer, visualization, querying, updating and information privacy. The term "big data" often refers simply to the use of predictive analytics, user behavior analytics, or certain other advanced data analytics methods that</li> </ul>	

extract value from data, and seldom to a particular size of data set.

against agreed limits and to identify payments patterns of potential interest.

## Approaches to FinTech Regulations

- **Active Approach:** Regulators work closely with startups to understand new fintech developments and upcoming obstacles and to help startups address these challenges. Examples: early collaboration with industry in drafting regulation; regular feedback/explanations of rationale during regulation process, collaboration with startups to help develop their product aligned with regulation. Active approach requires intensive use of regulatory resources and risk that agencies will become overwhelmed. UK's Financial Conduct Authority (FCA) uses an active approach
- **Passive Approach:** National regulators do not play an active role in trying to make fintech companies succeed, but they don't stand in their way. Germany has historically taken this approach.
- **Restrictive Approach:** Governments that are risk averse, have large bureaucracies or fear regulatory capture by the industry may take this approach.

### Different outcomes from different approaches:

- Regulation can either facilitate or be a barrier.
- Assist new entrants with lower regulatory costs, or impede the new innovators to enter the market.
- Regulator can give credibility to the successful fintech, in the UK, fintech with graduation from the sandbox have high credibility, some banks prefer to purchase and deal with the sandbox graduates.
- The regulators are extending their work to previously unregulated areas.

### What is Sandbox? How Does it Work?

A "regulatory sandbox" is a safe space where businesses can test innovative products without immediately incurring the normal regulatory consequences (e.g., no enforcement actions).

- In the UK, the FCA authorized sandbox firms with restrictions (non-banks only), allowing them to test their ideas.
- Singapore established a regulatory sandbox in June 2016 Australia, Hong Kong, UAE also developed a regulatory sandbox. Recently, other countries followed them.

### How the Sandbox Works?

- The FCA sandbox: within a methodology, criteria and procedures, they receive innovative ideas, advice and consult the fintech, allow them to test at a regulated entity environment, then in a live environment with real customers after getting their consent.



- According to the results, the FinTech Co. is announced as successful and accepted or failed.
- Singapore also issued guidance and built the platform for testing. Singapore are willing to ease any of their requirements for the testing period with the exception of AML which is a red line.

## Different Approaches of Sandbox

Dedicated Regulatory Platform (Sandbox)	Platform developed by the Regulator
Authorized Platform (Sandbox)	Authorized platform at a regulated entity Regulated Platform as any other financial intermediary
Regulated Platform (Sandbox)	
Undefined Platform (Sandbox)	Platform that is neither regulated, authorized nor exempted

## Evaluation Criteria

CBJ will evaluate any submitted request according to seven predefined criteria:

- 1- Using Technology in an innovative way: the applicant should prove using technology in an innovative way, any applications that lacks innovation will be rejected.
- 2- Adding value to the users or the industry.
- 3- Applicable in Jordan, applications for innovation that cannot be applied in Jordan at a broader scale will be rejected.
- 4- The applicants should provide the sandbox with clearly-defined test scenarios with expected outcomes.
- 5- The applicants should be aware of the limits and boundaries of his innovation, and include them within his application in a clearly defined way.
- 6- The applicants should be aware of the risks associated with his innovation, and accordingly include the assessment of the risks and controls to manage and mitigate them.
- 7- The applicant should put a an exit plan from the sandbox along with a business plan for launching in case of successful and accepted innovation for deployment on a broader scale.

**FinTech Bridges:** Fintech bridges are cooperation agreements or partnerships between countries for the purpose of making it easier for FinTech companies to pursue new opportunities in both countries and attract investment. It makes compliance in multiple countries easier and cheaper for FinTech companies.

- Recent Agreements:
  - UK and Australia (March 2016)
  - Australia and Singapore (April 2016)
  - UK and Singapore (May 2016)

**Tax Concessions:** Governments in pro-FinTech countries are attempting to support the FinTech industry through tax concessions and/or tax incentives.

- Examples:
  - Australia – In March 2016, new legislation was introduced providing significant tax incentives to promote local and foreign investment in innovative start-ups as

part of the National Innovation and Science Agenda. These incentives included a capital gains tax exemption and non-refundable carry forward tax offset

- U.K. - The Seed Enterprise Investment Scheme (SEIS), Enterprise Investment Scheme (EIS), and Entrepreneurs' Relief on capital gains tax.

## **PROPOSED CBJ REGULATORY SANDBOX AND FINTECH ACCELERATOR**

**First:** the policies and procedures of the Sandbox: per the guideline and according to the pre-defined criteria, scenario tests, priorities, facilities and simplifications, in addition to exemption from licensing and fees and capital requirements and governance at the early stages.

**Second:** Shared infra-structure for the Accelerator and Sandbox:

- 1- Test environment similar to the business environment in terms of technical requirements and protocols to allow the innovators to test in a low cost environment; and within the following suggestions:
  - a- Clouding environment where the innovators can upload their applications for testing and evaluation.
  - b- Open APIs guidelines to allow the innovators to enter the cloud for testing and evaluation without regulatory and registration requirements until the innovation is ready for broader scale deployment.

CBJ can define and announce the interested and prioritized developmental areas for the innovators with some facilities and incentives.

## ANNEX 5

### IMPLEMENTATION SUPPORT PLAN

1. The World Bank will support the implementation of the project and provide the technical advice necessary to facilitate the achievement in the PDO.
2. There will be a subsidiary agreement signed between CBJ and the World Bank whereby the Recipient makes the funds of the grant available to CBJ for implementation of the project.
3. Through the project duration the World Bank team will closely monitor the project on annual supervision missions. During the supervision mission, the World Bank will ensure that the financial arrangements agreed on are respected and will assess if any additional training or support is needed. The World Bank team will review and clear the audit TOR, review the audit reforms and IFRs received and provide its feedback on a timely manner.

#### 4. The main focus in terms of implementation during:

<i>Time</i>	<i>Focus</i>	<i>Skills needed</i>	<i>Resource estimate</i>
First twelve months	<ol style="list-style-type: none"> <li>1. Build capacity of Secretariat through training workshops and delivery of toolkits</li> <li>2. Organize technical workshops</li> <li>3. Assess specifications for regulatory sandbox</li> </ol>	Financial Specialist, Financial Inclusion M&E specialist, Senior Financial Sector Specialists, Senior Payments System specialist	\$55,500
12-24 months	<ol style="list-style-type: none"> <li>1. Assess specifications for automated Secretariat solution</li> <li>2. Integrate survey solutions</li> <li>2. Plan study tours</li> <li>3. Establish regulatory sandbox</li> </ol>	Financial Inclusion M&E specialist, Senior Financial Sector Specialists, Senior Payments System specialist, Financial Sector Analyst	\$60,800
24-32 months	<ol style="list-style-type: none"> <li>1. Establish automated tool</li> <li>2. Operationalize regulatory sandbox</li> </ol>	Financial Inclusion M&E specialist, Senior Financial Sector Specialists, Senior Payments System specialist	\$20,500

#### 5. Skills Mix Required:

<i>Skills Needed</i>	<i>Number of Staff weeks</i>	<i>Number of Trips</i>
Financial Specialist, Financial Inclusion M&E specialist, Senior Financial Sector Specialists, Senior Payments System specialist, Financial Sector Analyst	40 weeks	6 trips

#### 6. Partners:

Institution	Role
The Arab Monetary Fund (AMF) and GIZ	The World Bank will provide implementation support to the project and the AMF and GIZ will participate in missions for coordination of this activity with other related activities.