



Project Information Document/ Identification/Concept Stage (PID)

Concept Stage | Date Prepared/Updated: 04-Apr-2017 | Report No: PIDC113496

**BASIC INFORMATION****A. Basic Project Data**

Project ID	Parent Project ID (if any)	Environmental Assessment Category	Project Name
P163719		C - Not Required	Promoting Financial Inclusion Policies and Regulations in Jordan (P163719)
Region	Country	Date PID Prepared	Estimated Date of Approval
MIDDLE EAST AND NORTH AFRICA	Jordan	04-Apr-2017	31-May-2017
Lending Instrument	Borrower(s)	Implementing Agency	Initiation Note Review Decision
Investment Project Financing	Ministry of Planning and International Cooperation	The Central Bank of Jordan	The review did authorize the preparation to continue

PROJECT FINANCING DATA**FINANCING****FINANCING SOURCES**

Select all that apply

☐ Counterpart Funding☒ Trust Funds☐ Parallel Financing**SUMMARY (USD)**

Total Project cost	1,250,000
Total Financing	1,250,000
Trust Funds	1,250,000
Financing Gap	0

DETAILS**Trust Funds**

Source	Currency	Amount	USD Equivalent
MENA Transition Fund - IBRD as	USD-US Dollars	1,250,000	1,250,000



Implementing Agency(MNIS)

B. Introduction and Context

Country Context

- **Economic growth has been sluggish in Jordan.** 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 have further decelerated.
- **Ongoing conflict in Syria and large influx of refugees[1] have adversely affected Jordan's economy.** Unemployment remains high: estimates increased from 11.9 percent in 2014 to 15.1 percent in the first three quarters of 2016[2] with youth and women particularly affected (35.5 percent and 23.9 percent respectively)[3]. The refugee crisis is also weighing on the public finances where public debt to GDP increased from 89 percent in 2014 to 93 percent in 2016.
- **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 IMF and NBER Working Paper[4] provides evidence on direct linkages between financial inclusion and GDP growth. At the microeconomic level, individuals 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.

[1] United Nations Higher Commissioner for Refugees (UNCHR) estimates there are approximately 655,496 Syrian refugees in Jordan as of January 2017.

[2] The World Bank, Jordan Economic Monitor, Fall 2016.

[3] Average for the first three quarters of 2016. Jordan Department of Statistics.

[4] 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>. - See more at: <http://mastercardcenter.org/insights/imf-mit-study-shows-financial-inclusion-drives-economic-growth/#sthash.r5T59cZ1.dpuf>

Sectoral and Institutional Context

Existing datasets on financial inclusion suggest that there is a great potential to deepen financial inclusion in Jordan:

- **With only one-fourth of adults having a bank account, Jordan is lagging behind its peers.** The recent Findex figures for 2014 estimate that only 24.6 percent of the population (15 years and above) have formal bank accounts, i.e. 13 percentage points below countries with similar GDP per capita; and contrary to most countries in the developing world, this share has been stagnant since 2011.
- **Jordan lags behind other countries in terms of access to credit from formal financial institutions.** Only 14 percent of the adult population reported that they have borrowed from a financial institution (World Bank Global Findex).



- **Gender disparities are also prevalent, with women facing higher levels of financial exclusion.** In 2014, 15 percent of women had a bank account vs. 17 percent in 2011.
- **Young start-up firms face challenges in accessing financing.** A recent market assessment conducted by the European Bank for Reconstruction and Development (EBRD) shows that 83 percent of Start-ups depend on “Own fund” as the main source of financing, while 17 percent rely on other sources such as: loans from banks, clients, friends and family, suppliers and micro finance institutions (MFIs). To mitigate the 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 weight on the deepening of financial inclusion.** These include: informality (which translates into excessive information asymmetry); limited product offerings (lack of tailored savings, insurance, credit—including sharia compliant-, and payments products); absence of risk-based Know your Customer regulation; lack of modern Government payments systems; weak consumer protection framework; and lack of systematic, comprehensive market analysis.

Reponses of the authorities so far:

- **The Central Bank of Jordan (CBJ) has taken the lead in developing a National Financial Inclusion Strategy (NFIS).** A Financial Inclusion Steering Committee (FISC) that includes all stakeholders in the area of financial inclusion was mandated by the Prime Minister to direct and approve high level policies supporting the NFIS. Under the FISC, a Financial Inclusion Technical Committee (FITC) was established within CBJ and has drafted the national governance structure and a roadmap for the NFIS process, which builds on thematic working groups for microfinance, SME finance, digital payments, consumer protection, and financial education. On 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 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 make each of the above five pillars more robust. Since then the thematic working groups are meeting regularly to feed in the NFIS developing process.
- **The CBJ mandated GIZ (with co-funding from the European Union) to conduct an in-depth market diagnostic study to provide a baseline for financial inclusion in preparation for the NFIS.** The diagnostic study of financial inclusion 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 map 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 CBJ in the 2016 Alliance for Financial Inclusion (AFI) Global Policy Forum has announced its commitment to Maya declaration** 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 and, and over the same time, to reduce the gender gap in the Kingdom from 53% to 35%. 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, shared and celebrated 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 DFS and MFIs financial consumer protection guidelines by 1st quarter



2017; (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 end 2018; (v) ensuring efficient and responsible growth of 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 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 also 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 JoMoPay to provide them with digital wallets to receive money and transact. This comes along with financial literacy programs and outlook for digital cross-borders remittances routes.
- **The Government of Jordan has announced its commitment to digitizing money transfers.** This is of particular importance as the World Bank Universal Financial Access (UFA) data portal estimates that 0.2 million adults can be reached in Jordan by exploiting the country opportunity of digitizing G2P payments. Currently, 160 out of 260 government services are paid electronically in the system where government transactions in the system are growing exponentially in terms of volume and number.
- **With the objective of attaining a more inclusive financial system, this proposed project comes at a particularly opportune time to assist the NFIS implementation and assist Jordan in meeting its Maya declaration commitments.** The proposed project through supporting the implementation of the NFIS, will complement and build upon technical assistance currently provided by GIZ.

Relationship to CPF

- **The proposed operation is closely linked to the World Bank's Country Partnership Framework 2016–2021 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 CPS: "Fostering the conditions for stronger private-sector-led growth and better employment opportunities for all", and the CPS 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 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 whom 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.
- **The proposed project is also directly in line with the Bank and IFC's Regional Framework and Strategy for the Middle East and North Africa (MNA) region, which focuses engagement on inclusion, job creation and sustainable private sector-led growth.** The proposed project through supporting a well-functioning NFIS Implementation unit, a comprehensive M&E system and improving existing data infrastructure will support the effective implementation of NFIS and will increase levels and quality of financial inclusion in Jordan. World



Bank Universal Financial Access (UFA) data portal estimates that 0.8 million adults can be reached by the country opportunity of drafting and implementing the NFIS[1]. Affordable access to and use of financial services helps young, 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.

- **The Project's objective is aligned with the World Bank's Twin Goals and global initiative to provide universal financial access around the world by 2020.** Financial inclusion - access and usage of quality financial services, including credit, savings, payments and insurance - is an enabler and a catalyst for achieving the 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.

[1] <http://ufa.worldbank.org/country-progress/jordan>

C. Project Development Objective(s)

Proposed Development Objective(s)

The project development objective is to support the implementation of the National Financial Inclusion Strategy (NFIS) in Jordan.

Key Results

- Progress towards achieving the project's objectives will be measured by a series of quantitative and qualitative indicators at the PDO level and at the intermediate level.
- The Financial Inclusion Monitoring and Evaluation (M&E) framework that will be developed under Component 1, will include relevant NFIS indicators[1] and will track the implementation of NFIS and monitor progress and impact. The framework will be segmented by intermediate outcomes, outcomes and national headline progress. These indicators are meant to measure national progress, which has contributing factors beyond the scope of this project. Thus, this project will *only* track national financial inclusion progress and will not use national targets and indicators as a metric for project success as there are many exogenous factors outside the scope of this project that effect the progress of national level indicators.
- **Key indicators at the project's objectives level are:**
 - The Financial Inclusion Monitoring and Evaluation (M&E) framework is adopted and operationalized;
 - Strategically important coordination mechanisms (Secretariat, Working Groups and Technical Committees) are strengthened;
 - Key data and IT infrastructures are established;
 - Adoption of enhancements to KYC procedures
 - Number of FinTech pilots conducted;
- **Intermediate indicators will also be tracked; these include:**



- M&E Policy Toolkit delivered;
- Design of improved data infrastructure solutions;
- Number of training workshops delivered;
- Development of framework for regulatory sandbox and accelerator drafted;
- Number of peer learning dissemination and workshops events organized.

[1] Typical indicators include percentage of adults that own a transaction account, percentage of adults savings at a regulated institution, etc.

D. Preliminary Description

Activities/Components

Component I: Operationalizing the Financial Inclusion Implementation Unit at CBJ (US\$ 500,000).

- The CBJ has established a NFIS Implementation Unit following the establishment of the Financial Inclusion Steering Committee (FISC) and the Financial Inclusion Technical Committee (FITC). The objective of this component is to support the implementation of the NFIS through developing a well-functioning NFIS implementation unit, operationalizing a comprehensive M&E system and improving existing data infrastructure.
- This component comprises of three sub-components:
- **Sub-component 1.1:** Strategically staff, train and build capacity of the unit, in key skills that support the coordination, monitoring and tracking and disseminating all relevant data and progress. Monitoring and evaluation tools will also be built to identify and track progress of marginalized population groups (often times women), and T.A will be provided to enable the unit in conducting key strategic research and tracking (both through supply and demand side data) of financially excluded population groups, particularly excluded women. This includes delivering relevant policy tools, conducting training seminars and workshops, and organizing study tours and on the job training.
- **Sub-component 1.2:** An assessment of data gaps will be conducted to identify and develop solutions to build any required data infrastructure needed to fully design and operationalize the M&E framework. This will include: (i) T.A in improving the frequency or depth of demand-side data collected, including adding additional modules to already available surveys building on the experience of the EU-GIZ demand side study of 2017; (ii) assisting in the development and consolidation of data currently missing; and (iii) adding relevant indicators or modules to supply-side data templates and supervisory templates collected by various agencies;
- **Sub-component 1.3:** Support the improvement of operating environment of the NFIS implementation unit. The unit will procure the required equipment and IT, both software and hardware in order to enhancing the data collection, processing and analysis. The sub-component will cover the hiring of experts to support this improvement process.
- Key outputs envisioned for this component include (i) an operational M&E framework; (ii) the delivery of multiple trainings and workshops to build capacity; (iii) data collection templates to consolidate financial inclusion data; (iv) the development of a Secretariat policy toolkit (including an M&E tracker to track the performance and completion of NFIS activities); and (v) facilitation of M&E reports, implementation reports



and evaluation studies.

This component will be conducted in close coordination with GIZ.

Component 2: Developing a country-specific program of peer-learning and knowledge sharing (US\$400,000).

- The project through partnership with AFI, AMF and WB will facilitate full engagement and peer learning among regulators and policymakers in Jordan by involving them in the broad array of services and offerings, with a special focus on the policy areas of priority that have been identified by the country based on the Financial Inclusion Market Diagnostic results. Specifically, this component will finance the following sub-components:

Sub-component 2.1: The Jordanian AFI membership during project duration will be funded under this 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:

- **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.
- **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.
- **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.
- **Sub-component 2.2:** Organizing technical workshops on priority areas that would support Jordan meet its Maya Declaration commitments. This could potentially include the following topics: Development of Digital Financial Services; Building and Analyzing Financial Inclusion Data; Consumer Protection and Financial Literacy; Cross Border Remittances; Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT).
- **Sub-component 2.3:** Supporting the sharing of experience learned on regulatory sandboxes[1], accelerators and hubs from across the World. This sub-component will cover the expenses related to study tours, training and workshops.

- **Component 3: Establishing regulatory sandbox to facilitate the development and adoption of innovative financial technology (US\$350,000).**

- CBJ is seeking to leverage RegTech[1] approaches to enhance the effectiveness of its regulatory and supervisory arrangements and, ultimately, facilitate the adoption of innovative financial technology. Supporting the development of eKYC as well would enhance financial inclusion and make it easier particularly for women due to mobility and other factors[2]. In addition, eKYC will be an effective inclusive tool by building an up-to-date database which would also include refugees. This will ensure higher integrity standards in the financial system and will provide the regulator with enhanced monitoring tools. Eventually, it will allow the implementation of efficient and risk-based AML/CTF.



- This component will assist the government in establishing a regulatory sandbox to better understand the appropriate regulatory environment required to leverage new FinTech without stifling innovation or risking over-regulation. This component will finance the following subcomponents:
- **Sub-component 3.1: Establishing the internal processes and procedures for regulatory sandbox.** In order to establish a regulatory sandbox, this sub-component will provide TA to help the authorities define and develop a high level framework that provide guidelines for eligibility requirements and the process for applying to conduct a pilot in the sandbox; the process of reviewing and approving the pilot, specifications on how pilots can be conducted, the process for monitoring and finally the process for evaluating the outcomes.
- **Sub-component 3.2: Working with banks in Jordan to establish a FinTech lab.** This will serve as the technical infrastructure for piloting and testing new technology approaches including distributed ledger[1], digital Ids and Application Program Interfaces (API). Capacity building and TA will be provided to design the FinTech Program, including (but not limited to) guidelines for applicants and programming, process for applications and conducting pilots, etc. In addition, this component will design and finance core shared infrastructures that will enable new entrants and developers to pilot FinTech innovations. This may include, for instance, establishing basic technology infrastructures like Distributive Ledger implementation, common API infrastructure, available interfaces that can be integrated into government systems, etc. TA will also include developing a platform to connect innovators with support to design pilots, share core infrastructure and access to required resources.

Sub-component 3.3: Financing small-scale pilots in the area of FinTech. This component will provide TA to assess and identify particular FinTech (including RegTech) innovations that require specific pilots, and provide financing for these pilots to understand their effect prior to greater implementation.

[1] Distributed ledger technology (DLT) refers to an emerging approach to recording and sharing data across multiple data stores (or ledgers). DLTs allow for digital data to be replicated, shared and synchronized geographically across various market players, agencies and institutions.

- [1] RegTech" is using technology, particularly information technology, in the context of regulatory monitoring, reporting and compliance benefiting the finance industry. RegTech companies aim on finding solutions that address regulatory compliance challenges through technological innovation.

[2] Use of e-KYC, particularly through block chain technologies, 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).

[1] In the information technology world, sandboxes are isolated environments used to test new or untrusted programs. Similarly, regulatory sandboxes are 'safe spaces' in which businesses can test innovative products, services, business models and delivery mechanisms without immediately incurring all of the normal regulatory burden of engaging in the activity in question.

SAFEGUARDS



E. Safeguard Policies that Might Apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01		X	
Natural Habitats OP/BP 4.04		X	
Forests OP/BP 4.36		X	
Pest Management OP 4.09		X	
Physical Cultural Resources OP/BP 4.11		X	
Indigenous Peoples OP/BP 4.10		X	
Involuntary Resettlement OP/BP 4.12		X	
Safety of Dams OP/BP 4.37		X	
Projects on International Waterways OP/BP 7.50		X	
Projects in Disputed Areas OP/BP 7.60		X	

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