

ACTION FICHE - JORDAN

1. IDENTIFICATION

Title	Support to the Public Finance Reform Programme		
Total cost	EC Contribution: €42.5 millions, including: – Budget support: €35.5 millions		
Aid method / management mode	Sector Policy Support Programme: – Budget support – Project mode partly centralised and partly decentralised		
DAC-code	15120	Sector	Public sector financial management

2. RATIONALE AND COUNTRY CONTEXT

2.1. Economic and social situation

Jordan is a small lower-middle-income country, with a per capita income of \$2,500. Recent economic performance has been impressive, growth averaged 6% over 2001-2006 while inflation, albeit on a rising trend, remained low, except for 2006, when it rose sharply to 6.3%.

In 2004 and 2005, the influx of Iraqi immigrants and money, as well as the higher Foreign Direct Investments from oil-rich Gulf countries, has been massive and has also helped fuel economic growth. However, the macroeconomic impact of these capital inflows has been largely offset by increased foreign asset holding of the banking sector, lower external grants and higher oil prices (impact on terms of trade).

Public finances have shown improvement. Budget spending has remained fairly stable at around 33% of GDP while revenues have increased from 25.7% of GDP in 2004 to a preliminary estimate of 30.5% in 2006. As result, and given the sharp decline in grants, from 10.9 to 3.2% of GDP over the same period, the deficit including grants increased from 1.7% of GDP in 2004 to 4.3% in 2006, while the deficit excluding grants fell from 12.7% to 7.5%.

Government and government-guaranteed net debt has fallen from 88.5% of GDP in 2004 to 72.5% in 2006, with the external debt component falling from 66.2% of GDP to 49.8%. Given Jordan's recent dynamic performance, the government's external debt service burden has declined, as a proportion of GDP, from 4.2 to 3.8%.

Given Jordan's population growth rate of some 2.8%, the recent record of high economic growth will have increased per capita income by some 15% compared with 2002. In addition, Jordan is one of the better-performing countries in the region in terms of social indicators, especially in respect of life expectancy (72 years), adult literacy (91 per cent), and under-five mortality (28 per 1000 live births). However, these favourable trends have not been generally perceived as bringing about an

increase in welfare. This could be explained by an increase in income disparities often associated with economic liberalisation. Moreover, unemployment has barely decreased from its persistently high rate of 13-15%, while youth unemployment has remained even higher, at 30 per cent. The Government is implementing cautious macroeconomic policies, targeting monetary stability and fiscal consolidation. Inflation is abating and the budget deficit is being brought back under control.

The IMF, in its latest report (March 2007), takes a positive view of Jordan's medium-term economic outlook. Growth is projected at 6% with declining inflation. The external position is less certain, but the current account is projected to decline to 7.5% of GDP by 2012 on the basis of strong continuing export performance (12% in 2006) and falling import growth to below 8%. There is currently no IMF-funded programme, but IMF missions will continue on the basis of Article IV Consultations and "post-programme monitoring".

In terms of public finances management, Jordan remains eligible for general budget support. The Public Expenditure and Financial Accountability report funded by the Commission and carried out in April 2007 show strong progress in public financial management that has now reached good standards.

2.2. Reform policy of beneficiary country

The National Agenda, developed under the royal aegis and presented to the King in late 2005, is an integrated ten-year development platform aimed at meeting the country's development challenges. Its scope is comprehensive, incorporating public sector development and fiscal and financial management reform, covering eight themes: Political development and inclusion; Justice and legislation; Investment development; Financial services and fiscal reform; Employment support and vocational training; Social welfare; Education, higher education, scientific research and innovation; and Infrastructure upgrade.

Regarding long-term fiscal reforms in the National Agenda, the Government intends to reduce its debt by pursuing further debt restructuring and by rationalizing spending and increasing revenues. Increased reliance on domestic rather than external financing would make the debt structure less vulnerable to external shocks. To rationalize spending, this initiative proposes to reform the pension system, wages and salaries, and the civil service; and to eliminate subsidies, while improving the social safety net mainly by achieving better targeting of the poor through the National Aid Fund. With respect to revenues, the National Agenda seeks to: (1) simplify the tax law to improve collection and reduce tax evasion; (2) unify the income tax on all activities gradually; (3) raise the General Sales Tax (GST) from 4% to 16% on a number of commodities; (4) conduct a study to find the best method to eliminate tax relief on certain services such as electricity, construction, transportation, legal services, and the court system; and (5) privatize the transportation, distribution, and production components of the energy sector by 2008.

2.3. Government Sector Programme

- (1) Public financial management system

The current public financial management system is well functioning and compares favourably with that of other countries in the region. However, during the last three years, reforms have progressed slowly, with limited progress in specific areas, such as e-Government and customs, and with only marginal improvement in public expenditure management and human resource management. Inspired by the National Agenda and the Kulluna Al Urdun initiative, a large number of component reform projects are currently under way. Moreover, the pace of implementation seems to have accelerated with specific technical assistance (TA) provided by the donor community.

On the revenue side, a thorough programme to improve tax administration is progressing on target at the Income and Sales Tax Department (ISTD), with technical assistance from USAID. A risk-based model has been developed to select corporations to be audited and three medium-taxpayers offices covering manufacturing, trading and service companies were created in August 2006, following previous TA recommendations. From May 2007 to May 2009, USAID will also assist ISTD to: (i) establish a one stop location at the ISTD offices to file tax returns for GST, income, and other taxes; (ii) expand electronic-filing; (iii) automate the audit and collection process; (iv) establish an alternative tax regime for small taxpayers; (v) improve the appeals process; (vi) improve taxpayer services provided by ISTD; (vii) introduce a public outreach programme and a taxpayer education campaign; and (viii) train managers, design and deliver training courses.

On public expenditure management, progress is made to improve the framework for budget preparation, execution, and monitoring. A revised budget classification consistent with the Government Finance Statistics Manual (GFSM) 2001 and a new chart of accounts will be introduced at the beginning of 2008. The new chart of accounts will allow classifying central government data by funding, institution, geographical location, functional classification, programme/sub-programme/project, and general ledger accounts. This will improve transparency and the capacity to better allocate resources, monitor results, and target poverty reduction programmes. Regarding Government Financial Management Information System (GFMS), the software development phase will start in September 2007, pilot testing will be implemented during October-December 2008, and the system roll-out will follow during 2009. Work is also being undertaken to develop Medium Term Fiscal Framework (MTFF), Medium Term Expenditure Framework (MTEF), performance indicators, and result-oriented budgeting. Measures to improve accountability and transparency include: the Ministry of Finance devolving spending resources to line ministries in 2007, with the Ministry of Planning and International Co-operation doing the same in 2008; strengthening internal controls and audit functions in central government agencies; building up the external audit capacity of the Audit Bureau; and fighting corruption.

The present programme will focus mainly on the expenditure side of the reform. The Jordanian authorities are committed to a credible and relevant programme aimed at improving Public Finance Management (PFM) performance. *Budget support* is therefore considered the most relevant aid mechanism.

(2) Promotion of Public Private Partnerships

To help curbing expenditure it is equally essential to increase the level of private investment in public infrastructure in the framework of well designed Public Private Partnerships (PPP).

As background to PPP, privatisation of state-owned assets in infrastructure sectors under the provisions of the Privatisation Law No (25) of 2000 and implemented by the Executive Privatisation Commission (EPC) will be completed in mid 2008, to be succeeded by a comprehensive Public-Private Partnership (PPP) Programme targeting investment requirements across all infrastructure sectors under the same jurisdiction, supplemented by specific PPP regulations.

Current Government estimates expect the PPP Programme to reach approximately €4.5 billion in acquired infrastructure investment over the coming five years. Targeted sectors include water and waste water, environmental services, public and freight transport, municipal services and tourism.

The PPP Programme of Jordan will set forth the successes of the Jordanian privatisation programme as first national PPP Programme in the Middle East and the Arab World, built on a transparent, best practice-oriented regulatory framework, efficient institutional structures and strong political support.

In this context the Commission programme will be instrumental to increase the service delivery to Jordanian citizens of a wide range of public services. Because of the nature of this sector, the lack of extensive Jordanian experience as well as limited institutional capacity within the EPC, the Government has proposed the Commission to opt for a *project approach* to support the national strategy in this area.

2.4. Lessons learnt

Jordan has continually maintained its eligibility for general budget support both in the sphere of macroeconomic policy and, although progress has been slow, in the sphere of public financial management reform. This was confirmed with the conclusion on the *Public Expenditure and Financial Accountability* study carried out in March 2007. There are only few donors active in the field of general budget support in Jordan, mainly the USA, sometimes in association with Japan. After an initial phase in which EC Budget Support was aligned on the IMF, late programmes have been self-standing. On the whole, information on the achievement of conditionalities has been produced in timely fashion. Release of tranches has been done within the normal period required to conform to administrative procedures, and the predictability of budget support flows has been enhanced with the adoption of more flexible tranching arrangements. The economic dialogue on the conditionalities has sometimes been weak, but some measures in the new programme will address this point.

2.5. Complementary actions

Related EC actions include: (i) a short-term technical assistance project, "Institutional strengthening of the Audit Bureau of the Hashemite Kingdom of Jordan", a twinning project under the "Programme of Support to the Implementation of the EU-Jordan Association Agreement" (SAAP); and two general budget support programmes, ii) the "Sector Reform Facility" and (iii) "Support to the

Implementation of Kulluna al Urdun”. The European Commission current support to the EPC will stop in 2008, but current activities will prepare the ground for this intervention, and jump start the programme.

Other donor technical assistance projects include:

- USA: “The Jordan Fiscal Reform Project”.
- World Bank: “Public Sector Capacity Building Loan” and assistance with design of MTEF architecture and establishment of MTEF at the central agency level.
- GTZ: Financial Management Reform.
- UNDP: Support for the department of revenue collection.
- France: Training within the Ministry of Finance.
- Spain: Training on taxes in banking and insurance.
- Canada: Budgeting for education.

2.6. Donor coordination

The overall coordination, harmonisation and alignment of donor efforts are led by the UNDP, in close cooperation with the Ministry of Planning and International Cooperation and the different line Ministries. The *Donor/Lender Consultation Group* (DLCG) process initiated in Jordan ensures coordination between Member States, as well as USAID, the UN and other active donors, such as Japan. The DLCG has established six thematic groups: education, social development, private sector reform, environment, water, governance and public-sector reform. Cooperation with EU Member States is effected through monthly meetings chaired by the EU, with a special emphasis on establishing an “EU Roadmap for donor harmonisation and alignment”. Coordination with the World Bank and EIB is achieved under the Strategic Partnership Agreement between the three institutions, launched in 2004. The EC Delegation’s chairmanship of the UNDP donor/lender private sector development sub-group should facilitate co-ordination during project implementation.

3. DESCRIPTION

3.1. Objectives

The *overall objective* of the programme is to consolidate Jordan's economic growth by reducing the fiscal deficit to a sustainable figure.

The programme will support the implementation of the Public Financial Management Reform Strategy. The aim is to support a more efficient allocation and use of financial resources in alignment with national priorities, notably: preparation and execution of the central budget, combating tax evasion, tax administration, information technology and systems, accountability, and increased investment in public infrastructure.

In a separate component, the programme will facilitate the entrance of the private sector in delivering public services through public private partnerships thereby limiting public expenditure. The national accounts will benefit from an increase of private investment in infrastructure, whilst Jordanian citizens will benefit from an enhanced service delivery of a wide range of public services.

3.2. Expected results and main activities

Expected results in the field of *fiscal reforms* include:

- Substantial progress towards the National Agenda and Kulluna Al Urdun targets for 2012: budget deficit (excluding grants) of 3.6 per cent of GDP, public debt 63 per cent of GDP, tax revenues as a proportion of total revenues of 71 per cent.
- The budget to be based on the new Chart of Accounts.
- Pilot testing and roll-out process for the new GFMIS.
- The Ministry of Finance and the Ministry of Planning and International Co-operation to devolve spending resources to some line ministries.
- An automated system for managing taxpayer debt, i.e. current debt and arrears.
- A significant reduction in the steps and time needed to process tax collection.
- Significant reduction in the steps and time needed to complete a taxpayer audit.
- National Aid Fund systems improved with the aim of better targeting.

Expected results in the field of *public private partnerships* include:

- The scope of the PPP programme will be extended to up to five new infrastructure sectors, with the aim to transfer PPP transaction-specific skills and know-how to Jordanian key experts.
- Assistance will be provided to the implementing agency for financial analysis and negotiation with investment banks/transaction advisors.
- Legal assistance will be provided to the implementing agency for the design and execution of PPP transactions (development of PPP transaction plans and documents including draft PPP contracts).
- The institutional capacity of the implementing agency will be strengthened to meet the challenges of an extended privatisation and PPP agenda.
- The skills and technical competence of implementing agency staff will be enhanced.
- The communication strategy will be improved to raise public awareness on infrastructure PPP and to promote PPP opportunities.

Continued technical assistance to the Executive Privatisation Commission will focus on human capacity building (with at least 20 key counterpart staff trained in PPP methods), strategic advice on sector policies for infrastructure development through PPP, stakeholder coordination, promotion of PPP opportunities, and support in the coordination of transaction advisory services.

Support in both areas is tailored on the basis of national policy documents. Whenever possible, the onus is placed on measures having a social impact.

3.3. Stakeholders

The main stakeholders are the Ministry of Finance, the National Audit Bureau and the Executive Privatization Commission.

3.4. Risks and assumptions

There is little risk that Jordan's eligibility for general budget support will be compromised for reasons linked to financial management. Its track record in maintaining cautious macroeconomic policies has been exemplary.

It is expected that the Government continues to extend political strong support to the privatisation and PPP programmes and to its implementing agency. This is of particular importance, as the government will introduce new sectors and new concepts for privatisation and public-private partnership. PPP projects will have to be endorsed by inter-ministerial steering committees and supported by relevant governmental entities, such as sector ministries, regulatory commissions, etc.

3.5. Crosscutting issues

The programme has clear positive implications in the sphere of good governance. It is expected to be neutral in respect of gender equality and human rights.

The Environment would gain substantially from the PPP initiative. At present, the government lack both funds and expertise to address current environmental problems. For the government it is now clear that water, energy, waste, contamination are issues that can not be put under the carpet anymore. This is reflected by an active Ministry of Environment that we support via other programmes. While corruption is not widely spread in Jordan, the central role of good governance is recognised as a pillar for the future. The participation of important investors will promote more transparency as it is the case already in telecommunication.

4. IMPLEMENTATION ISSUES

4.1. Implementation method

(1) Support to reforms in public finances: centralised management

The allocation for the sector budget support is €35.5 million. It is envisaged that this will be disbursed in an initial (fixed) tranche of €15 million in January 2008, following signature of the Financing Agreement. The other 2 fix tranches,

respectively of €10 million and €10.5 million, are expected to be disbursed subsequently.

Complementary support for an amount of €1 million is allocated for programme monitoring. Monitoring will be particularly important since Jordan is not under a IMF-funded programme at the moment. Furthermore, World Bank activities are limited and activities such as Public Expenditure Review are not systematic. For these reasons, there is a need for the Commission and the country to access advice and feed the economic dialogue based on well documented reports. This technical assistance will be implemented through a centralised service contract.

(2) Support to Public Private Partnerships: decentralised management.

One TA contract will provide long and short terms experts to the EPC, through a service contract to be passed by the EPC.

The Commission controls ex ante the contracting procedures for procurement contracts >50.000 Euro and ex post for procurement contracts • 50.000 Euro.

Through the programme estimates, payments are decentralised for operating costs up to the following ceilings:

Works	Supplies	Services	Grants
< €300,000	< €150,000	< €200,000	• €100,000

4.2. Procurement, grant award procedures and programme estimates

All contracts implementing the action must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

The essential selection and award criteria for the award of grants are laid down in the Practical Guide to contract procedures for EC external actions. The maximum possible rate of co-financing for grants is 80%. Full financing may only be applied in the cases provided for in Article 253 of the Implementing Rules of the Financial Regulations where financing in full is essential to carry out the action in question.

All programme estimates must respect the procedures and standard documents laid down by the Commission (Practical guide to programme estimates financed by the General Budget of the EC).

4.3. Budget and calendar

The total budget is €42,500,000, and an indicative breakdown is provided hereafter:

Budgetary support Tranche I	€15,000,000
Budgetary support Tranche II	€10,000,000
Budgetary support Tranche III	€10,500,000
Monitoring (TA service contract)	€1,000,000

Support to PPP (TA service contract)	€5,500,000
Evaluation, audit and visibility	€500,000
TOTAL	€42,500,000

The operational period is 48 months as from the signature of the Financing Agreement, expected end 2007.

4.4. Performance monitoring and criteria for disbursement

Monitoring missions will be mounted twice-yearly throughout the programme, under a TA contract. In each year, the second mission will be scheduled to ensure that performance can be assessed and reported upon, and that the EC can inform the Government of the amount of General Budget Support funds to be disbursed.

The general conditions for disbursement of all tranches will relate to the maintenance of prudent macroeconomic policies and substantial progress in achieving key macroeconomic targets. The specific conditions for the disbursement of individual tranches will be based on the items listed in Section 3.2 above.

The major results and indicators to measure progress for the PPP component are listed in Section 3.2 above.

4.5. Evaluation and audit

Without prejudice to Article 24 of the General Terms and Conditions, the Programme shall undergo annual and final audits and mid-term and final evaluations, according to terms of reference specified by the European Commission. Audit and evaluation reports shall be communicated to the Beneficiary and the National Coordinator by the Commission Delegation. In addition, the Commission may send specific missions at any time to assess the progress of the Programme.

The European Commission will be entitled to suspend or reduce financing to any Component or activity that is found to be under-employed or no longer justified on the basis of the above monitoring and evaluation missions. Under such circumstances, the Commission reserves the right to re-allocate funds to other Programme Components or activities.

4.6. Communication and visibility

Communication and visibility are the responsibility of the beneficiary. Activities will be defined in close collaboration between the Government and the Delegation. It is envisaged that a workshop might be arranged for a discussion between stakeholders on the progress of programme implementation.

The PPP Component will be facilitated by a dedicated public relations and promotion budget in order to ensure increased EU visibility, encourage participation of EU companies, extended public awareness of the PPP Programme and the promotion of specific PPP opportunities towards stakeholders and investors.