### Identification

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<th>Support to public finance and public administration reforms CRIS number: 2014/033-664</th>
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<td>Total cost</td>
<td>Total amount of EU budget contribution EUR 47.5 million (EUR 40 million from the Annual Action Programme 2014 and EUR 7.5 million from the Umbrella Programme 2014), of which EUR 40 million for budget support EUR 7.5 million for complementary support</td>
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#### Budget support

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<td>Sector Reform Contract</td>
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#### Complementary support

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2. **RATIONALE AND COUNTRY CONTEXT**

2.1. **Summary of the action and its objectives**

The present programme provides sector budget support and complementary support for public finance and public administration reforms to aid the Government of Jordan continue its programme of Public Financial Management Reform and the new programme for Public Administration Reform over the period 2015 to 2017. It aims to enhance accountability and public service delivery through improved Government of Jordan performance. This will contribute to the objective of "Reinforcing the rule of law for enhanced accountability and equity in public service delivery" in the component 1 of the Single Support Framework (SSF) 2014-2017.

2.2. **Country context**

2.2.1. **Main challenges towards poverty reduction/inclusive and sustainable growth**

Jordan is a stable country in a troubled region. It is a small economy with no oil or gas resources and an estimated population of approximately 7 million, augmented by a growing number of refugees from Syria. It is classified as an upper middle-income country, with a widening gap in income distribution. The GINI coefficient has worsened slightly 35.4 (2010), down from 33.8 in 2008. The top 20% of citizens in 2013 accounted for 43.6% of income or consumption, while the bottom 40% accounted for 10.3%. Jordan had a per capita Gross National Income (GNI) of USD 4,670 in 2010. Gross Domestic Product (GDP) growth is only slowly recovering to 2.8% in 2013, only 0.1% higher than the rate of economic growth achieved in 2012. GDP growth was spurred by increased consumption and investment, but limited by pressures from the external environment and the limited fiscal space of the government. GDP growth is expected to reach "only" 4.5% in 2017. This growth rate, although favourable, is slower than expected and is much below the demographic growth rate, and insufficient to reduce unemployment, according to International Monetary Fund (IMF) estimates. There is general and widespread discontent with the government’s perceived inability to promote growth and to address its poor economic performance, increasing corruption, poor job growth and rising prices.

The country continues to face challenges in its achievement of a stable fiscal environment. These include: increasing demands from the population for reforms in the light of the Arab Spring that resulted in the Government of Jordan increasing subsidies; the slow rate of global economic recovery that restricted the government’s capacity to stimulate economic activity and employment; recurrent disruptions to the natural gas supply from Egypt that affect the cost of energy; and regional political instability leading to the dramatic growth in Syrian refugees in the country. These factors contribute to growing public debt, (86% of GDP in 2013), substantial losses in the water and electricity utilities, and 2013 government subsidies amounting to 1% of GDP. A 36-month USD 2 billion IMF Stand-by Assistance loan has been assisting the government since August 2012 in stabilising its fiscal environment. Assistance has also been received from the Gulf States, the United States, the World Bank, and the European Union.

Faced with increasingly limited public resources, greater Government of Jordan efficiency is called for. Moreover, following the Arab Spring the Government is aiming to improve service delivery to respond to citizen's concerns. To address these and other issues, the government continues its focus on enhancing public finance.

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1 In current USD, Atlas method, Source: http://data.worldbank.org/indicator/NY.GNP.PCAP.CD.
management, improving government planning, spending and collection, trimming
government business unit losses, and improving the accountability of institutions for
improved service delivery and efficiency. The present programme aims to support
some of those objectives.

2.2.2. Fundamental values

As underlined in the European Neighbourhood Policy (ENP) Progress Report 2013,
Jordan advanced on a number of issues but also faces still some unresolved
challenges. Parliamentary elections which took place in January 2013 were well
administered and carried out in a transparent manner, governed by the electoral law
amended in 2012. A number of shortcomings of this law do however undermine the
protection of universally accepted principles, such as the equality of votes and
Court (SSC) law, which restricts the scope of action of this military court, but does
not eliminate the possibility of civilians being tried before it. The amendments to the
press and publications law, adopted in September 2012, entered into force in early
June 2013. They introduced a number of requirements relating to the operation of
online news portals, which the media and civil society view as a way of imposing
limits on freedom of expression and adding liabilities for the editors in-chief and
owners for the content posted on the sites.

2.3. Eligibility for budget support

Jordan continues to be eligible for sector budget support and is also expected to
maintain these conditions during the current programme implementation. It has
already received and successfully managed a previous Public Finance Management
Sector Budget Support (PFM) (SBS) programme. The risk of non-utilisation of this
SBS is very limited. The conclusions on the four eligibility criteria for budget
support follow:

(1) The analysis of the public finance and of the public administration sector
policy strategies confirms that well-defined policies and strategies that
respond to the challenges faced by Jordan have been prepared and are under
implementation. Sound Strategic and Action Plans for 2010-2013 were
prepared and then 2014-2017 and discussed with the formulation mission.
Considerable progress has been achieved in recent years as a result of
significant donor assistance and strong government commitments to reform.
Thus, the sector policy is considered appropriate for the provision of EU SBS.

(2) The analysis of the macroeconomic framework and the macroeconomic
forecasts provided by the latest IMF Article IV Consultation and Stand-By
Arrangement review mission to Jordan which took place in March 2014,
confirmed the positive assessment. It may be concluded that the
Government’s macroeconomic policy provides an appropriate basis for
providing SBS to Jordan.

(3) An extensive analysis of PFM reform implementation was undertaken in the
The report concluded that the Government of Jordan continues to make sound
progress in the implementation of its PFM reform programme and that the
PFM system in Jordan is sufficiently well-functioning to ensure the proper
utilisation of donor funds, including budget support.
Finally, the entry point for the transparency and oversight of the budget was met as the draft budget continues to be published in a timely manner and for wide public access.

2.3.1. Public policy

At the broadest level, the government-wide public finance and public administration strategies continue to be based on the National Agenda and the “We are all Jordan” initiatives. The National Agenda 2006-2015 is a high-level plan of the Government of Jordan based on inputs from the Agenda Steering Committee. This Committee consulted widely, with representatives from the Government, Parliament, civil society, the private sector, media and political parties. The National Agenda is implemented through the Executive Development Programme (EDP), government units and their annual action plans. Their strategic plans assist in the achievement of the goals of the National Agenda. Most ministries and organisations are involved in implementing the Executive Development Programme and report periodic progress to Ministry of Planning and International Co-operation (MoPIC). Moreover a recent reform initiative was launched as part of the IMF’s Stand-by Arrangement initiated in 2012 with a value of approximately USD 2 billion over a three-year period. Its reform programme was designed to assist the government in addressing its problems in fiscal stability. These are discussed in more detail in a following section.

The latest overarching initiative in public sector and public finance reforms is the National Integrity System Charter and Executive Plan completed in December 2013. It was also based on extensive consultation and brings together a comprehensive reform process linking the next round of economic and public sector reforms. While the proposed timelines for its execution are optimistic, it has great value. The plan focuses on identified actions that, when taken together, are designed to significantly improve the integrity of government operating transparency, efficiency and effectiveness. It also includes measures to improve the integrity of citizens and the private sector in the context of their dealings with government. The Integrity Charter and Executive Plan appear to have strong support of the King and civil society. It provides strong direction and guidance for public finance and public administration related reforms for the future and a number of the key areas therein have specific benchmarks contained in this proposed programme.

As regards specific strategic plans for public finance and public administration reforms, both the Ministry of Finance and the Ministry of Public Sector Development are responsible for leading, monitoring or supporting reforms which have cross-cutting effects across all government institutions. Moreover, both Ministries have as their ultimate goal to improve the efficiency of service delivery, as well as improving the strategic allocation of scarce financial resources across the government. The sector strategies of both ministries are therefore highly relevant for the current proposed sector reform programme. The Ministry of Public Sector Development had its Government Performance Development Programme 2013-2016 approved by the Cabinet in December 2013 with a wider array of public sector reforms. The Ministry of Finance has recently developed its "Comprehensive Reform of Jordan's Public Financial Management 2014-2017".

Policy Relevance

The consolidated set of government policies described above is matched by more precise plans and processes in the individual government units. This provides a linkage from the programme proposed to these higher objectives. Because these policies are directed at increasing the fiscal stability of the country, they provide the
processes that are designed to promote economic growth, creating the necessary funds for expanded education, health and social programs, poverty reduction, and improved services to Jordanians.

**Policy Credibility**

The policies developed by the government are generally well-conceived and reflect a strong desire on the part of all stakeholders to address the multiple challenges faced in the country. Limited staff capacity to perform new tasks requires on-going capacity development and training. This is complicated by the chronic budget deficit, the inability to fund the full range of projects that present themselves and the hiring freeze since 2012. Donor assistance provides support during development and implementation: the continuing challenge for the government is to assume operating responsibility for projects when the donor programme financing has been completed.

Despite these challenges, the government has made good progress in advancing its public finance reform agenda and developing its public administration reform targets. The Government achieved the vast majority of the previous EU PFM programme’s budget support benchmarks. For instance Public Expenditure Framework Agreement (PEFA) budget performance indicators have been highly rated in the two past surveys. The preponderance of evidence supports a conclusion that there is a credible and relevant national and PFM-sector and public administration development strategy that supports the objectives of poverty reduction, sustainable and inclusive growth, and democratic governance.

2.3.2. *Macroeconomic policy*

Based on the most recent IMF review missions (for the 3rd and 4th reviews) and the latest Article IV consultations which took place in March 2014, and covered the whole of 2013 and forward looking measures, it is concluded that the authorities pursue a credible and relevant stability-oriented macroeconomic policy in the present circumstances aiming at restoring fiscal and economic stability in the medium term and moving towards sustainability in the long term. Progressive economic growth is apparent as growth for 2013 increased by 0.1% from 2012 to reach 2.8%. Trade, finance and insurance, and a recovery in construction were the key growth drivers. However, the fiscal position remains vulnerable and the high amount of grants went a long way to help stabilise public finances in 2013. The rising inflation trend for 2013 reflected the removal of fuel subsidies; inflation rose notably since end 2012 and was very much affected by the liberalisation of fuel prices and higher international food prices. The current account deficit reached 10.03% of GDP in 2013 (down from 16.8% in 2012), helped by lower energy imports, higher transfers, and private receipts. The monetary policy remains strong with a much improved environment as reserves climbed to comfortable levels. However, unemployment remained elevated at 12.6%.

As regards the risk of instability due to the slow rate of global economic recovery and the increased energy bill arising from unstable gas supplies from Egypt, those are being mitigated through adopted measures under the Stand-By Arrangement which aims to reduce the losses of the national electricity company and to maintain fiscal stability. The Government has demonstrated its commitment since end 2012 and adopted difficult policies to address main current challenges to the budget. Moreover, domestic revenue mobilisation measures for 2014 were agreed with the IMF and the 2014 budget is considered appropriate. As regards regional political instability with the additional cost to the government due to the hosting of an increasing number of Syrian refugees, those are being mitigated by National
Resilience Plan 2014-2016 which includes priority responses to mitigate the impact of the Syrian crises on Jordan and on host communities.

Some of these results were facilitated by the sustained PFM reform programme that has consolidated the budget, installed a Government Financial Management Information System (GFMIS), improved commitment control and cash management, and implemented medium term expenditure frameworks (MTEF) and results oriented budgeting (ROB) procedures. Reforms aimed at revenue mobilisation have included the better use of technology and employees along with revised procedures to improve audit efficiency, increase tax compliance, and improve the quality of the tax department’s service and transparency.

2.3.3. Public financial management

The 2013 PFM annual monitoring report completed in October 2013 reviewed progress in PFM reform implementation. It concluded that the Government of Jordan continues to make sound progress in the implementation of its PFM reform programme and that the PFM system in Jordan is sufficiently well-functioning to ensure the proper utilisation of donor funds, including budget support. Jordan has an integrated and well-functioning PFM system that has been strengthened over the last years through an on-going reform process supported by several donors. A number of key specific reforms were introduced in the last years such as the medium-term expenditure framework (MTEF) in 2008, a new Chart of Accounts (CoA) compliant with the 2001 Government Finance Statistics Manual (GFSM 2001), a revised budget preparation calendar, the gradual reinforcement of internal control units, and the adoption of the Treasury Single Account (TSA). In addition, the PEFA assessment of 2011 compared progress since the first PEFA in 2007 and noted that the overall change trended in a positive direction during the four-year period. The 2013 PFM annual monitoring report confirmed the positive trend, including progress in efforts to expand the use of the GFMIS further, improve the budget preparation, improve Audit Bureau reports, improve debt management, modernise internal controls and audit, and apply new information technology systems to improve the collection of tax arrears. Weaknesses persist in budget analysis, confusion remains between the concepts of internal control and internal audit, capacity building for pilot internal control units was not targeted enough and require a plan, and the revised new legislative basis for the Supreme Audit Institutions is yet to be approved by Parliament. Three of the above mentioned weaknesses are targeted in the present programme.

2.3.4. Budget transparency and oversight of the budget

The government of Jordan continues to make significant strides in improving financial information transparency and oversight. As per the EU Budget Support Guidelines of September 2012, the entry point for the fourth eligibility criteria – transparency and oversight of the budget – has been met as the Government of the Hashemite Kingdom of Jordan has published the enacted budget of the past budget cycle (2012/2013) within the respective fiscal year, and that the draft budget for 2014 was published on the internet for wider public reference and use before the end of 2013.

The latest Open Budget Index (OBI) from 2012 places Jordan at 57, much above the 18 OBI for Middle East and North African countries, and the highest index among its Middle East and North African neighbours, and well above the world wide average. The PEFA assessment of 2011 also confirmed notable progress in this area. The General Budget is published and accessible to the general public on the General
Budget Department's website since 2009, in draft and final form once approved by Parliament, in Arabic and English. Efforts to improve the information presented in the General Budget include the new and more detailed classification of the Chart of Accounts into the General Budget preparation since 2008. Since 2010, the new Chart of Accounts classification is applied to capital expenditure, which was therefore expressed in terms of the programmes and activities to be funded; in 2011 this was applied also to current expenditure, and for the first time the final accounts were published, which inform on the actual budget expenditure. Moreover, in response to popular requests for greater transparency and accountability, the General Budget Department developed two documents aimed at making the General Budget more accessible to the general public: the General Budget Brief which summarises the 2011 budget in a user-friendly manner; and the Citizen's guide which explains the main features of the General Budget Law and its content and it is written in a language suitable for wide public access.

2.4. Lessons Learnt
The Government of Jordan has been following a programme of continuous improvement and assessment of PFM by a variety of external experts both as a condition of grants and loans and also as the government recognises its importance and utility. Positive assessments of PFM, the macroeconomic condition, and numerous reviews of specific reform efforts have concluded that the government continues to make good progress, although suggestions for improvement are always made and generally accepted.

The PFM sector, led by the Ministry of Finance, has made noticeable progress in implementing new systems across all the stakeholder organisations. However, successful new systems and processes also require changes in the culture of the affected organisations, changes that can require years to fully embed. The initiative to implement internal financial control - which started under the EU budget support programme - represents one example of major culture change where the transition of working culture is occurring gradually. Systems and processes must be implemented by supportive management and staff possessing the analytical skills and judgment to inform decisions on strategy and policy. Increased transparency in all financial transactions contributes to reductions in the opportunities for fraud and corrupt behaviour. Processes have been initiated but improvements in PFM need to move outwards from the Ministry of Finance to line ministries.

Organisations must be analysed and restructured to accommodate systemic changes and to ensure the most efficient and effective use of budget resources – this is targeted through one of the activities of the present programme. Personnel policies must be adjusted to support the demands for greater staff capacities. These further changes also assist the stakeholders in better linking policy to budgets and monitoring results.

Donor financial and technical assistance has been vital to the achievement of many of the reforms to date, especially with regards to large projects like GFMIS, results-oriented budgeting, and MTEF. Continuing assistance is necessary to further the reform process, especially at the present time when Government attention is focused more on pressing issues related to the Arab Spring and the hosting of an increasing number of Syrian refugees.

2.5. Complementary actions
EU actions:
1) Twinning project for "Strengthening the Capacities of the Audit Bureau of Jordan" from September 2013 to June 2015;

2) Sector budget support programmes tied to a number of Government strategic reform initiatives, such as Public Financial Management (2010-2014), Technical, Vocational and Education Training (TVET), and Justice;

3) Technical assistance in medium-term budget reforms to the Ministry of Education;

4) Support for Improvement in Governance and Management (SIGMA) support missions for audit and internal control reform.

Donor and technical assistance from other donors includes:

1) United States Agency for International Development (USAID) technical assistance (of about USD 38 million programme) including resident advisors to the Ministry of Finance, General Budget Department and Income and Sales Tax Department, working extensively in helping establish the macro-fiscal unit, tax policy and administration reforms, results-oriented budgeting, and GFMS. Technical assistance to the Ministry of Public Sector Development is working on staff capacity development; improve allocation of staff, manuals of code of conduct, setting up the complaint system for citizens and a document management system. The USAID programme terminates in October 2014. It might be extended for an additional year in a reduced form. It is yet unclear whether there will be a fully-fledged follow up programme.

2) Gesellschaft für Internationale Zusammenarbeit (GIZ) technical assistance (of about USD 3 million) included resident advisors and supported the macro-fiscal unit and budget reforms including MTEF, sectoral expenditure review, budget classification, chart of accounts, and results-oriented budgeting. The GIZ technical assistance has recently completed its assistance and no follow up programme is foreseen as GIZ will focus more exclusively on water.

3) The IMF Fiscal Affairs Department and the Middle East Regional Technical Assistance Centre (METAC) in Lebanon provide ad hoc week long technical advice on treasury issues, revenue generation capacity and effectiveness.

4) The World Bank has just provided a second Development Policy Loan for USD 250 million to Jordan in support of Government's efforts to address economic and social consequences of the current global financial crisis and economic slowdown while improving resilience of the economy to adverse shocks. It also supports a range of reform initiatives such as a joint expenditure review, developing macro-fiscal modelling capacities, Medium Term Expenditure Framework and policy development.

5) The IMF and the World Bank have provided ad hoc technical advice through joint assessments of the PFM system in 2004, 2009 and 2011.

2.6. Risk management framework

As per the Risk Management Framework updated in March 2014, overall average risk levels remains moderate with an average inherent risk of 1.89 (lower than 1.96 from the 2013 assessment) and an average residual risk of 1.83. Risk is somewhat stabilised from the previous assessment of September 2013. Though substantial risks prevail i.e. the legal framework does not provide full protection of human rights, civil society and media; insufficient separation of powers and independence of judiciary; exclusion of some parts of the population, spill over effects of the Syrian
crisis; and for corruption legal, regulatory and institutional framework is not effectively enforced.

The identified risks are mitigated though political and policy dialogue through Association Agreement committees and steering committees and targeted assistance and using efficiently all the tools the EU has at its disposal, in particular the broad range of on-going programmes. In particular assistance to media and gender equality issues; support to further develop the legislative/regulatory frame for the implementation of the new political laws. Support for the Parliament and to implement the adopted political reforms and assistance to the judiciary. A solid monitoring framework for fiscal consolidation though the IMF’s Stand-By Arrangement and EU Macro-financial Assistance also monitors and mitigates risks, as does the EU Budget Support (BS) and assistance on energy efficiency and renewable energy. The additional EU support in 2013 of EUR 60 million (and potential new funding in 2014) to alleviate the impact of the refugee influx from Syria, addresses some medium and longer-term needs of both refugees and host communities in particular in the needs of education.

3. DETAILED DESCRIPTION OF THE BUDGET SUPPORT CONTRACT

3.1. Objectives

The present programme targets public finance and public administration reforms and aims to enhance accountability and public service delivery through improved Government performance. This will contribute to the objective of “Reinforcing the rule of law for enhanced accountability and equity in public service delivery” in the component 1 of the Single Support Framework (SSF) 2014-2017.

These directly support the specific objectives of the Ministry of Finance and its departments and of the Ministry of Public Sector Development. As stipulated in the "Comprehensive Reform of the Jordan’s Public Financial Management 2014-2017", its main objectives are to: 1. secure long term aggregated fiscal discipline 2. Foster policy-based budgeting 3. Enhance the role of the private sector as the main driving force of sustainable economic growth 4. Give due consideration to citizens' concerns – the present programme contributes to 1, 2 and 4 of these. And the public administration reform "Government Performance Development Programme" 2013-2016 aims at enhancing public services provided to citizens, enhancing transparency and accountability and performance in the public sector. Of the six pillars of the Ministry of Public Sector Development's programme, the present programme proposes to support the following: Second Pillar: Government streamlining, Third Pillar: developing government services and simplifying procedures, and Fourth Pillar: Strengthening supervision, regulation, accountability and transparency.

3.2. Expected results

Expected results of the proposed budget support programme include:

a) Enhanced public service delivery;

b) Increased transparency, accountability and prevention of corruption in the use of public funds, with particular emphasis on independent Government Units, internal control and audit, external audit and their rationalisation;

c) Enhanced domestic revenue mobilisation; and

d) Improved tax arrears payment discipline, and increased levels of tax collection.
In the case of complementary support (technical assistance), the following specific results in the area of capacity development are expected:

a) Enhanced financial and programme analysis during budget preparation;
b) Enhanced rationalisation of the internal audit and control and the external audit functions;
c) Improved service delivery in several sectors; and
d) Increased tax revenues and reduced tax arrears.

3.3. **Rationale for the amounts allocated for budget support**

The indicative total amount allocated to the Annual Action Programme 2014 under the Single Support Framework 2014-2017 is between EUR 93.6 million and EUR 114.6 million, of which between 50.7% and 41.4% is to be provided under the present budget support programme.

The allocation of EUR 40 million from the Annual Action Programme (AAP) for the present programme will be complemented by EUR 7.5 million from the Umbrella Programme. During the formulation mission it became obvious that the technical assistance needs from the Ministry of Public Sector Development were higher than expected, in particular as this is a relatively recent ministry set up in 2007 with a relatively small number of staff and requiring expert technical advice on a number of reforms. Moreover, it became apparent that the institutions dealing with public finance reforms also require technical assistance as the they will receive less support than before. The two donors who were providing long-term advisors are completing their programmes and only one of them (the USAID) is likely to continue and if so from 2016 at best, given their programming cycle and procurement timetables. Thus the additional allocation from the Umbrella Programme would focus on expanding in particular the public administration reforms, and in particular the capacity building component. The additional funds are also aimed to support the capacity of public finance institutions. Given the small size of the Ministry of Public Sector Development and that only one donor is currently supporting the Ministry of Public Sector Development until 2015 there was scope to raise technical assistance to this ministry. There was also scope to increase the budget support component for specific reform benchmarks for public administration reforms and to improving service delivery.

The use of budget support as the primary instrument to support the reforms is based on the following considerations:

- **Budget support is an important component of EU assistance to Jordan.** It provides the government budget flexibility to allocate the support to high-priority areas and at the same time, provides an incentive to focus on improving key public finance and public administration weaknesses. The present EUR 47.5 million in sector budget support represents approximately 0.7% of total government revenues and 0.18% GDP.

- **Jordan is in dire need of and receives from a broad range of donors (Gulf States, EU, World Bank, IMF, and United States) financial assistance for even the basic needs of the government (see discussion of fiscal environment).** In this environment, incentives to maintain its commitment to ongoing and new reforms are critical.

- **Jordan’s commitment to a range of ROB-related budget techniques (performance budgeting, MTEF, Medium Term Financial Framework (MTFF)
ensures that spending of own resources and budget support are allocated to high priority activities. Multi-donor and bilateral discussions ensure that support from all sources is targeted to high priority reform activities.

- Benchmarks for budget support are negotiated with stakeholders based on key strategic documents including this year the new comprehensive strategic plan and a new document having the direct support of the King, “The Integrity Charter and Executive Plan”. Achievement of many of the benchmarks will have a marked impact on such areas as increased revenues, reduced arrears, greater accountability, and more responsiveness to citizens' needs. These have long been goals of the government and will have an impact well beyond the effect of simply spending the amounts of the SBS.

- The government has a significant track record of success in meeting its benchmarks. Any failures are generally related to technical issues, rather than a lack of will. With budget resources and staff for the key stakeholders limited, the absorptive capacity and appetite is quite high.

- The government PFM system is now results based. In addition to the monitoring provided by the SBS, the ministries are responsible for monitoring of all of their programmes and activities, and the Ministry of Planning and International Cooperation provides ongoing monitoring of the specific benchmarks.

A costing exercise was also done and established that the total cost to the Government over three years to undertake the activities of the public finance and public administration reforms are estimated at JOD 155,180,000 (indicatively EUR 159 million). That is an average cost per year of JOD 51,726,666 (indicatively EUR 53 million). The EU budget support (of EUR 40 million) component would cover 25% of the total cost.

3.4. Main activities

3.4.1. Budget Support

The expected activities of the budget support component include the fulfilment of the overall budget support requirement related to the satisfactory progress made in the implementation of the four eligibility criteria. Specific reforms benchmarks are foreseen to achieve the following:

- Develop the capacity of internal control units at ministries, departments and agencies to conduct ex-ante (pre-audit) controls and build a professional Financial Controller community throughout the Government;
- Implement the withdrawal of the Audit Bureau from pre-audit;
- Launch a focused initiative to lower the total stock of tax arrears;
- Increase the collection rate of new imposed taxes;
- Increase tax assessment quality;
- Implement a revised chart of accounts for government unit functional expenditures;
- Implement improvement initiatives for the delivery of streamlined and faster services to citizens;
• Implement a system of quarterly feedback on the follow up of complaints on the Complaints Management Call Centre;

• Implement a system of ‘Undisclosed’ Site Visits’ to selected ministries, departments and agencies.

The budget support specific reform benchmarks are based on the two strategies, the "Comprehensive Reform of the Jordan’s Public Financial Management 2014-2017" and the "Government Performance Development Programme" 2013-2016. Some benchmarks were also drawn from the National Integrity System Charter and Executive Plan completed in December 2013, in particular the internal controls benchmark. Benchmarks were selected following the "results" already indicated in the Identification Fiche. Out of the 10 specific reform benchmarks, two specific reform benchmarks are related to the modernisation of internal control and external audit functions; those follow from the previous programme. Specific reform benchmark 3 also partly follows from the previous SBS as it focuses on reducing the stock of tax arrears and the previous SBS supported the development and adoption of IT systems which records and classifies arrears. All the other 7 reform benchmarks are new, in particular those related to the Ministry of Public Sector Development as we will be supporting this institution for the first time.

3.4.2. Complementary Support

Technical assistance:

The Government of Jordan has made significant progress in PFM and has also started some public administration reforms in the past decade. But each step of the reform programme’s progress has been accomplished through the infusion of significant amounts of donor funding and technical assistance.

The Government is now even more strained in terms of financing and staff, as budget resources are more stretched due to external and internal pressures, and as the result of a hiring freeze and the departure of many skilled staff for higher salaries elsewhere, human resources are inadequate for ongoing operations and for expanding responsibilities.

Yet further reform is necessary. Reduced financial resources make it all the more important to achieve the objectives of the reforms programmes, including collecting maximum revenue, auditing programmes and processes to ensure the reduction of inefficient public spending and fraud, budgets must be better targeted at high priorities, and unnecessary spending for programmes and subsidies reduced or eliminated. Finally, the streamlining of duplicative, cumbersome functions and agencies is critical to efficient and effective government, as is the streamlining of service delivery to citizens.

Due to a lack of “in house” expertise, technical assistance is often crucial to enabling the stakeholders achieve their priority benchmarks and other initiatives of interest. In the past, technical assistance from the EU and other donors has enabled the implementation of major PFM reforms.

Jordan currently needs enhanced public service delivery; increased budget transparency, improved accountability and prevention of corruption in the use of public funds, enhancing capacities in internal controls, internal and external audit; enhanced domestic revenue mobilisation; improved arrears payment discipline; and improved monitoring of tax collection.
During the formulation phase the Government of Jordan institutions were highly motivated and demonstrated a strong interest in the programme and very good cooperation during formulation. Government ownership of the reforms was apparent with institutions working daily and closely with the formulation experts on the various areas.

The technical assistance (TA) needs were strongly expressed by the various institutions and cross-checked by the formulation consultants' assessment of Government capacities, by an IMF-World Bank diagnosis report on needed TA, by the PEFA, by discussions with donors and by the EU Delegation's assessment based on previous experience. Following extensive discussions on a number of reforms, selected areas for TA were chosen depending on whether they were relevant i.e. related to improving government performance and aimed at improving public service delivery, and whether they are cost efficient related to the programme (e.g. GFMIS was excluded due to its high cost, estimated at about EUR 15 million which would cover only some needs).

Relevant TA needs are estimated to cost EUR 2.767 million for public finance related reforms and EUR 2.890 million for public administration reforms over a three year period. The total comes to an estimated EUR 5.657 million, to this should be added an amount for audit, evaluation, contingencies and visibility which is how the estimate of EUR 6.5 million was reached for the estimated required capacity building.

The following technical assistance for public finance and public administration reforms are foreseen:

**Activities related to result 1: Enhanced financial and programme analysis during budget preparation**

- Assistance to integrate and develop cash and debt management systems into the Government Financial Management Information System;
- Assistance in planning and establishing an analytical unit at the General Budget Department and preparing and conducting their training in analytical techniques;
- Assistance to extend the Chart of Accounts from three characters to four characters for government units;
- Capacity building for the Ministry of Finance's revenue department.

**Activities related to result 2: Enhanced rationalisation of the internal audit and control and the external audit functions**

- Support and advice on the planning and implementation of the agreed Ministry of Finance (MoF) / Audit Bureau (AB) pre-audit withdrawal implementation plan. Enhance capacity in internal control, internal audit, and external audit MOF and AB. The aim is to strengthen internal controls and internal audit units and achieve an internal controls system (independent from the Audit Bureau) that is transparent and effective in reducing the opportunities for fraud and corruption.

**Activities related to result 3: Improved service delivery in several sectors**

- Support for restructuring of selected ministries, departments and agencies;
- Assistance in planning the rationalisation of regulatory commissions;
• Reengineer and redesign selected public services;
• Implement an awareness raising campaign for citizens on existing avenues for citizens to voice their concerns to Government;

Activities related to result 4: Increased tax revenues and reduced tax arrears
• Support the Income and Sales Tax Department to adopt techniques to increase collection of income and sales taxes, and enhance the capacity of Income and Sales Tax staff.

3.5. Donor Coordination
Bilateral coordination among donors and with Government has been productive and regular. The main donors providing support for finance reforms - the EU, USAID, GIZ, World Bank, IMF and METAC – have regular coordination meetings among donors and with government. In 2011 a specific Government-led donor coordination group on public finance reform issues was created by the Ministry of Planning and International Cooperation upon EU request and three meetings took place so far. The absence of IMF and World Bank offices in Jordan and the inconsistent participation of USAID to wider donor meetings have impacted the effectiveness of large donor meetings led by the Government; nonetheless the level of bilateral cooperation has been very productive. There has been an agreed division and complementarity in donors’ support, with EU budget support and technical assistance by main donors complementing each other, with technical assistance working on the quality improvement and reviewing systems and the budget support supporting specific milestones in terms of results. As regards direct support to the Ministry of Public Sector Development, the USAID is the only donor providing some ad hoc technical assistance.

3.6. Stakeholders
The main stakeholders are the MoF, the General Budget Department (GBD), the Income and Sales Tax Department (ISTD), the AB, and the Ministry of Public Sector Development (MOPSD).

3.7. Conclusions on the balance between risks (2.6) and expected benefits/results (3.2)
Expected benefits/results will be both intangible and tangible. Intangible results will occur inside and outside the government. For instance, as a result of more transparency through increased access on the internet of the budget, financial results and the tax system, citizens should have more knowledge and confidence in government programmes, a better understanding of its functions and performance and easier access to tax filing and information. Within the government, there will be better planning, budgeting, and analysis. Leadership should be better able to make more informed decisions. The government should function more efficiently and effectively.

Tangible benefits will include targeted increases in tax revenues and in reduced arrears, internal audit and control will combat misuse of public resources and inefficiency through the better application of audit and internal control techniques.

Support to public finance reforms and public administration reforms aim for greater efficiency in public spending, improved government performance and improve services to citizens. At a time when strong internal and external pressures exist requiring pressing actions and taking Government attention, it is important to support Government reforms for an improved public service to continue and to be ambitious,
which is the purpose of the present programme. While the public finance and public administration strategies for the coming years are relevant and respond to challenges in the sectors, implementation is closely related to the provision of sufficient technical assistance/advice to support key stakeholders to fulfil their respective roles. Moreover, specific budget support targets ensure that key milestones are reached and encouraged and focus on key issues. In key areas such as the modernisation of the control of public finances clearly introducing three levels of controls (internal control, internal audit and external audit), the cost of non-intervention would be very high as these are difficult reforms requiring working culture changes and organisational changes and were only initiated by the Government since 2010 due to donor pressure and support. The risk on non-intervention could be very high given that internal controls, internal audit and external audit are the necessary three levels of control to scrutinise and attest to the appropriate use of public funds, yet currently controls differs as some ministries have one level of control, some have two and some have three.

4. **IMPLEMENTATION ISSUES**

4.1. **Financing agreement**

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 184(2)(b) of Regulation (EU, Euratom) No 966/2012.

4.2. **Indicative operational implementation period**

The indicative operational implementation period of this action, during which the activities described in sections 3.4. and 4.4. will be carried out, is 36 months for both budget and complementary support, subject to modifications to be agreed by the responsible authorising officer in the relevant agreements.

4.3. **Criteria and indicative schedule of disbursement of budget support**

a) The general conditions for disbursement of all tranches are as follows: 1) satisfactory progress in the implementation of the "Comprehensive Reform of Jordan's Public Finance Management" 2014-2017 and of the "Government Performance Development Programme" 2013-2016 and continued credibility and relevance thereof, 2) implementation of a credible and relevant stability-oriented macroeconomic policy, 3) satisfactory progress in the implementation of the programme to improve public financial management and 4) satisfactory performance is upheld with regard to the public availability of accessible, timely, comprehensive and sound budgetary information.

b) Specific reforms benchmarks are foreseen to implement the activities stated in point 3.4 above and to achieve the results stated in point 3.2 above.

The indicative schedule of disbursements is summarised in the table below (all figures in EUR millions).

<table>
<thead>
<tr>
<th>Country fiscal year</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of tranche</td>
<td>Q1</td>
<td>Q2</td>
<td>Q3</td>
</tr>
<tr>
<td>Variable</td>
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<td>15</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Q1</td>
<td>Q2</td>
<td>Q3</td>
</tr>
<tr>
<td></td>
<td>15</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Q1</td>
<td>Q2</td>
<td>Q3</td>
</tr>
<tr>
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<td></td>
<td>15</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td></td>
<td>Q4</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4.4. **Details on complementary support**

A total of EUR 7.5 million is foreseen for complementary support, divided into two main categories: EUR 6.5 million for capacity building and EUR 1 million for monitoring and visibility.

Procurement for all complementary support will be done through direct management.

| Procurement (direct management implemented by the Commission as the Contracting Authority) |
|----------------------------------|------------------|------------------|------------------|
| Subject                          | Type             | Indicative number of contracts | Indicative trimester of launch of the procedure |
| Technical assistance to support public finance and public administration reforms | services         | 2                | 1st trimester of implementation |
| Evaluation and audit             | services         | 5                | 2nd trimester of each year (launch of monitoring missions) |
| Communication and visibility     | services         | 2                | 1st trimester of second year |

4.5. **Scope of geographical eligibility for procurement**

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act shall apply.

The responsible authorising officer may extend the geographical eligibility in accordance with Article 9(3) of Regulation (EU) No 236/2014 on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

4.6. **Indicative budget**

<table>
<thead>
<tr>
<th>Module</th>
<th>Amount in EUR millions</th>
<th>Third party contribution (indicative, where known)</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.3. – Budget Support Sector Reform Contract</td>
<td>40</td>
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<tr>
<td>4.4 – Technical Assistance Procurement</td>
<td>6.5</td>
<td>N.A.</td>
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</table>
(direct management)

<table>
<thead>
<tr>
<th>Section</th>
<th>Amount</th>
<th>Remarks</th>
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</thead>
<tbody>
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<td>4.8. – Evaluation and audit</td>
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<td>4.9. – Communication and visibility</td>
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<td>Contingencies</td>
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<tr>
<td>Totals</td>
<td>47.5</td>
<td>0</td>
</tr>
</tbody>
</table>

4.7. **Performance monitoring**

The performance evaluation preceding the disbursement of budget support tranches will be undertaken by the EU Delegation through the mobilisation of external monitoring missions for detailed performance monitoring of the general and specific conditions prior to each tranche disbursement. Monitoring missions reviewing the achievements of the technical assistance component shall also be launched mid-term i.e. upon completion of the first year of the technical assistance and possibly once more a year later. During each of the monitoring missions, joint EU-Government stakeholder meetings shall be held bringing together the main institutions responsible for the reforms in order to discuss progress of programme implementation. This performance monitoring will be funded from line 4.8 of the indicative budget in point 4.6 above.

4.8. **Evaluation and audit**

As regards budget support, the EU Delegation reserves the right to perform an evaluation at the end of the implementation. In the case of complementary support, the EU Delegation reserves the right to conduct an audit on an ad hoc basis.

4.9. **Communication and visibility**

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated before the start of implementation and supported with the budget indicated in section 4.5 above.

The measures shall be implemented by a contractor mobilised by the EU Delegation, and in cooperation with the partner country.

The programme will follow the orientations of the Communication and Visibility Manual for the EU External Actions. Professional services will be procured to ensure communication and visibility of the programme in coordination with the key stakeholders of the Government of Jordan social partners and civil society.